TD Wealth

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The difficulty of U.S. tax reform

One of the promises that President Trump made during his election campaign included a reduction of taxes that individuals and corporations pay. Although broad statements like these are easy to make, the execution of reforming the tax code is a daunting task for any government, let alone the current administration.

Challenges:

1. Fundamental Differences – President Trump would like to cut taxes however when taxes are cut, government revenue is reduced. Representative Brady from Texas believes that the proposed tax bill would reduce government revenue by $1.5 Trillion over the next 10 years[1]. Many Republicans are already concerned about the debt and deficit and would not agree to any reduction in government revenue without a corresponding cut to entitlements such as healthcare and social security. Trying to alter Obamacare was an absolute failure and any changes to social security would be even more challenging.

2. Opposition by State Representatives – One of the tenants of changing the tax code is to simplify it and get rid of many of the deductions and loopholes. One of the deductions pertains to the tax that you pay at the state level – SALT (State and Local Tax Deduction) is deducted from the federal tax that you owe. The citizens in high tax states such as California and New York would be penalized. As you can imagine, both the Democrat and Republican representatives from these states are opposed to this and would not likely vote for the passage of the bill if SALT deductions were disallowed.

3. Corporate tax rates are really not that high as once thought. At first glance, the corporate tax rate in the U.S. set at 35% seems to be one of the highest. However, according to the S&P and Dow Jones indices, the average company in the S&P 500 paid only 25.6% of revenues in tax as opposed to the reported 35%[2]. The stock market is anticipating that reducing the tax rate will boost corporate earnings and thereby perhaps be able to justify the lofty valuation. Even if tax reform does occur for corporations, one has to be mindful that the change may not be immediate and may take some time.

If tax reform does not get passed within a short time period, it's very possible that investors react negatively and I would not rule out a 5% to 10% correction. However, I still believe the global economy is improving, rates will stay relatively low and inflation is muted for now. This would be a buying opportunity – especially for global companies.

New Mortgage Rules

Starting January 1, 2018, prospective homebuyers will need to meet stricter guidelines in order to qualify for a mortgage with a federally regulated financial institution. In October, the OSFI (Office of Superintendent of Financial Institutions) announced that starting next year; borrowers will need to qualify for mortgages at the greater of the five-year benchmark rate published by the Bank of Canada (currently 4.89%) or 2% above the contracted mortgage rate (a 5 year rate on a fixed mortgage is currently around 3%). This "stress test" had already been in place for insured mortgages, those where a buyer is putting down less than 20%, but now will apply regardless of the size of the down payment.

So what does all this mean? Some studies show that the impact of these changes will be a 20% decrease in affordability. Whether prices will follow is an unknown but this new stress test on top of two recent rate hikes by the Bank of Canada is likely to result in fewer transactions which will undoubtedly impact the positive impact real estate activity has had an on Canadian GDP.

Tax Efficient Giving

We strive to help our clients like you grow your assets in a tax-efficient manner, generate potential income to fund your lifestyle, and help you transition assets to the next generation in a cost effective manner. Did you also know that we help our clients to potentially maximize charitable donations and minimize tax payable? As part of our service, we are happy to work with you, your accountants, and your designated charities to help you donate in a tax efficient manner. Whether it's donating appreciated securities to minimize capital gains, donating from corporate accounts to increase your Capital Dividend Account or developing a strategy to donate share options to reduce tax payable, please know that we are here to help.

We are moving offices!

On December 14, my entire team will be relocating to the 11th floor of TD Tower, 700 West Georgia St, Vancouver B.C. Our current location on the 18th floor will be going through a major renovation and upon completion, the configuration of the floor will no longer be able to accommodate our entire team. However, after 18 years in one location, I think it's time for a change. Our contact information remains the same and if you come by for a visit, keep in mind that the reception is on the 10th floor; we will meet you there and bring you up to our new offices.

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[1]Republicans Want To Pass Tax Reform By Thanksgiving. Here's Why That's Tough. Nov 7, 2017. [2]U.S. Equity Research Sector Watch, Taxing issues. Nov 13, 2017. The information contained herein has been provided by Ashit Dattani, Portfolio Manager & Investment Advisor and is for information purposes only. The information has been drawn from sources believed to be reliable. The information does not provide financial, legal, tax or investment advice. Particular investment, tax, or trading strategies should be evaluated relative to each individual's objectives and risk tolerance. Certain statements in this document may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects", "anticipates", "intends", "believes", "estimates" and similar forward- looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest and foreign exchange rates, equity and capital markets, the general business environment, assuming no changes to tax or other laws or government regulation or catastrophic events. Expectations and projections about future events are inherently subject to risks and uncertainties, which may be unforeseeable. Such expectations and projections may be incorrect in the future. FLS are not guarantees of future performance. Actual events could differ materially from those expressed or implied in any FLS. A number of important factors including those factors set out above can contribute to these digressions. You should avoid placing any reliance on FLS. The Dattani Wealth Advisory Group consists of Ashit Dattani, Portfolio Manager & Investment Advisor, Borzo Salehi, Associate Investment Advisor, Kristen Vilbrunt, Associate Investment Advisor, and Kim Dadgar, Client Service Associate. The Dattani Wealth Advisory Group is part of TD Wealth Private Investment Advice, a division of TD Waterhouse Canada Inc. TD Waterhouse Canada Inc. is a subsidiary of The Toronto - Dominion Bank. TD Waterhouse Canada Inc. – Member of the Canadian Investor Protection Fund. All trademarks are the property of their respective owners. ® The TD logo and other trade-marks are the property of The Toronto Dominion Bank. 17113280PC