Wealth Insights

TD Wealth Private Investment Advice

Summer 2024

Peter Sorra, FMA, FCSI
Senior Investment Advisor
416 279 1447
peter.sorra@td.com

In This Issue

Capital Gains Inclusion Rate 2
Where Is Your Original Will? 3
Regrets? The Timing of CPP Benefits ... 3
It's Time to Bring Kids to the Table ... 4

To My Clients:

Despite equity market advances in the first half of the year, opinions on the near-term outlook remain varied. Economically, we find ourselves in a 'liminal moment' — a transition period where the economy is neither great nor terrible. It's no surprise that financial narratives seem to be constantly shifting. However, summer offers an opportunity to take a break from the headlines. I am here to tend to your wealth management, so you can focus on other important aspects of your life.

I hope your summer is filled with plenty of downtime.

Trading the Fountain of Youth

With our increasing longevity, we seem to be trading our focus on the 'fountain of youth' for the 'fountain of usefulness,' where having purpose outweighs a desire for youthfulness. In a recent survey, 83 percent of those ages 65 and older say it's more important to be *"useful than youthful"* in their retirement years.[1]

This shift in perspective might explain why overall life satisfaction tends to peak for those ages 65 to 74, surpassing that of individuals ages 60 to 64,[2] and why adults ages 65+ report the highest levels of happiness of all age demographics.[1] Having a strong sense of purpose has been shown to enhance health and well-being, and may even promote longevity.

Researchers who study longevity often point to the Japanese notion of "ikigai," which roughly translates to a reason for being. Studies in Japan suggest that ikigai positively impacts health, happiness and productivity. Individuals who perceive themselves as having this sense of purpose tend to manage stress more effectively and enjoy longer lives.[3] When investigating the "Blue Zones" — regions in the world where people live some of the longest lives — a common theme emerges: a shared sense of collective purpose among residents.[4] Supporting this, a Canadian study in 2009 found that having a sense of purpose was linked to healthy aging and a reduced risk of mortality. The study, spanning 14 years and involving 6,000 participants, concluded that longevity benefits were not tied to age. In other words, having purpose appears to buffer against mortality risk across the entire age spectrum of the adult years.[5] Recent research echoes these findings: leading a purpose-driven life correlates with positive health outcomes and lower mortality rates.[6]

As you contemplate life beyond retirement, have you given thought to what you will do? This may end up being a lengthy portion of life — with our increasing longevity, one that could last decades. Many retirees struggle with the transition, often underestimating the extent to which their careers provided a sense of identity and purpose. Upon retirement, the oft-overlooked benefits of the workplace may disappear: daily routine, work interactions, social events, leadership status or a professional identity built up over time. Others find it difficult to adapt to new circumstances, such as changes in relationships with spouses or family. Spending more time at home in a non-work capacity can reshape the dynamics.

For many, retirement presents an opportunity for discovery and fulfillment, thanks to a greater abundance of time. While the concept of finding purpose varies from person to person, it may involve exploring new interests, furthering education, continuing work in a different capacity, volunteering for a worthy cause, mentoring others, nurturing new connections or embracing altruism in various forms.

We often place a significant focus on planning for our future by working hard, saving consistently and investing. As an advisor, I am committed to supporting you to plan a financial future that allows you to pursue whatever you choose. However, it's important to also give forethought to how you will spend this time. After all, while you can retire from your career, it's much more difficult to retire from life.

1. https://agewave.com/wp-content/uploads/2023/08/08-07-23-Age-Wave-The-New-Age-of-Aging-Report_FINAL.pdf; 2. https://www.prb.org/resources/happily-ever-after-research-offers-clues-on-what-shapes-happiness-and-life-satisfaction-after-age-65/; 3. https://pubmed.ncbi.nlm.nih.gov/19539820/; 4. https://www.ncbi.nlm.nih.gov/books/NBK298903/; 5. https://journals.sagepub.com/doi/abs/10.1177/0956797614531799; 6. https://journals.sagepub.com/doi/abs/10.1177/07334648211027691

■ Changes to Tax Law

Plan Ahead: The Increasing Capital Gains Inclusion Rate

There haven't been changes to the capital gains tax since the inclusion rate was last changed in 2000 — until now.

As a result of the 2024 federal budget, the capital gains inclusion rate was raised to "improve tax fairness." Since late 2000, 50 percent (1/2) of realized capital gains have been subject to tax. As of June 25, 2024, the inclusion rate increases to 66.67 percent (2/3) for realized gains in the year that exceed $250,000 for an individual.* For corporations and trusts, there is no threshold: the inclusion rate will now be two-thirds.

While the government targeted the change to impact the most wealthy, middle-class Canadians may not be immune. This may affect small business owners holding investments in their corporations and individuals who experience a one-time financial event, such as the sale of an investment property, family cottage/cabin or small business where an exemption is not available. At the time of writing (legislation is still pending), it's unclear whether the deemed disposition of capital assets at death will be subject to a higher inclusion rate (updates will be provided in a future newsletter).

The chart shows the impact on a capital gain of $500,000. Are there ways to help with the potential tax bite? Here are a handful of ideas:

Spread gains over multiple years — Plan ahead to time the sale of larger capital gains where possible to remain under the threshold (i.e., realizing $250,000 in gains over two years vs. $500,000 in one).

Crystallize gains — Individuals should evaluate the possibility of deferred taxation at higher rates against accelerated taxation at a lower rate. Deliberately selling and rebuying stocks to trigger a capital gain ("crystallizing") can decrease book value over time. This strategy, often used in years when an investor is in a lower tax bracket, may capitalize on the lower inclusion rate each year. The decision may depend on a variety of factors such as time horizon, current/future tax rate and potential growth rate.

Plan to cover increased tax liabilities — If you plan on passing down a family property, the use of insurance or other planning techniques may be considered to cover the higher tax liability on accrued gains.

Business owners — ***Asset location:*** Evaluate whether certain assets should be held in the corporation or owned personally, as a higher inclusion rate applies to all gains of the corporation. The use of corporate-owned insurance or an individual pension plan may be considerations for a corporation's tax strategy. ***Plan ahead to use tax deductions:*** Certain tax deductions require planning, such as the lifetime capital gains exemption, proposed to increase to $1.25 million. A new Canadian Entrepreneurs' Incentive proposes to reduce the capital gains inclusion rate by 50 percent on up to $2 million of capital gains (phased in) by 2034.

As tax planning remains an integral part of wealth planning, seek advice regarding your situation. **At the time of writing, legislation is pending.*

How Much More Tax for a $500,000 Gain?

Province	Tax Rate on Capital Gain*		Additional Tax
	1/2 Inclusion	2/3 Inclusion	
BC	26.75%	35.67%	$22,292
AB	24.00%	32.00%	$20,000
SK	23.75%	31.67%	$19,792
MB	25.20%	33.60%	$21,000
ON	26.76%	35.69%	$22,304
QC	26.66%	35.54%	$22,213
NB	26.25%	35.00%	$21,875
NS	27.00%	36.00%	$22,500
PEI	25.88%	34.50%	$21,563
NL/LB	27.40%	36.53%	$22,833

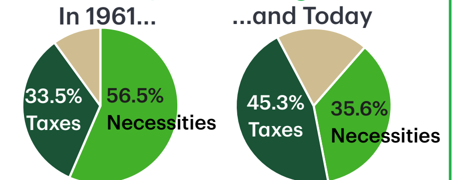
*For individuals, based on top marginal tax rates at 01/01/24. Assuming no other realized capital gains.

In Brief: Feeling as Though You Are Paying More Tax?

According to the *Canadian Consumer Tax Index*, 45.3 percent of family income goes to pay taxes. Since 1961, this has increased by 2,778 percent. Despite current inflationary pressures, consider that this outpaces the 863 percent rise in the Consumer Price Index.

Who bears the highest burden? Today, the top 20 percent of income-earners (family income over $243,000) paid 61.9 percent of personal income taxes despite representing only 45.7 percent of total income share.[1]

Avg. Canadian Family's Tax Burden vs. Necessities (Food, Clothing, Shelter)



1. https://www.fraserinstitute.org/studies/measuring-progressivity-in-canadas-tax-system-2023

Summer Job? Give (Grand)Kids a Head Start by Filing a Tax Return!

Do you have a teen in the family — a (grand)child, niece or nephew — who is working part-time after school or in the summer? There may be an opportunity to help them build wealth for the future and save tax, too. All it involves is the time taken to file a tax return each year.

Generally, when taxable income is less than the basic personal amount (BPA), there may not be a requirement to file a return if no taxes are due. For 2024, the BPA is $15,705 for net income of $173,205 or less. However, filing a return may be worthwhile. Why? Even small amounts of earned income can help accumulate valuable RRSP contribution room over time.

Consider the example of Josh, age 14, who earns $5,000 each summer as a lifeguard. His aunt helps him to file a tax return. In doing so, he accumulates RRSP contribution room at a rate of 18 percent of earned income, or $5,000 X 18% = $900 per year. The tax rules allow for the indefinite carry forward of unused RRSP contribution room, so he carries this amount forward. By age 22, Josh graduates from post-secondary school and has generated $8,100 of unused room.

He gets a full-time job with income subject to a marginal tax rate of 30 percent.* By contributing $8,100 to his RRSP and claiming the corresponding deduction, he saves $2,430 in tax ($8,100 X 30%). The RRSP contribution can grow to nearly $75,000 by age 60 at an annual return of 6 percent. Not a bad head start! In addition, there may be other benefits:

Education — Involving kids in preparing tax returns can help to instill good financial habits from a young age.

Income splitting — If you own a business, paying younger family members for reasonable services rendered can transfer funds into the hands of those in lower tax brackets.

Home Buyers' Plan — Up to $60,000 of RRSP funds may potentially be accessed as an interest-free loan for the purchase of a first home.

*Illustrative. Tax rates are based on income and province of residence.

■ Estate Planning Perspectives

Where Is Your Original Will Stored?

Where you hold your estate planning documents is important. Here are some considerations.

There may often be a long period of time between creating a will and when it ultimately needs to be retrieved. As the years pass, an individual may change homes, leave a province or even retire to a different country. Lawyers who provided support may change practices or retire. It therefore isn't unheard of for estate planning documentation to be lost, thrown away or destroyed.

This points to the importance of safely storing documentation over time to ensure it can eventually be accessed. A will that outlines wishes and intentions is of little use if it cannot be located after death. In most provinces, the original will must be filed with the courts for an estate to be administered — a copy, even if notarized, cannot be used in its place. Aside from the additional cost, effort or delays in searching for documentation, worse still are the consequences of needing court intervention if the document cannot be found, known as dying "intestate," with estate assets distributed by intestacy rules and not necessarily as intended.

Here are common places where estate planning documentation is held, each with its own considerations:

Lawyer's office — Improves the chance of safekeeping given professional obligations for file retention/safeguarding, yet there's the potential to lose track of files if lawyers change firms, move or retire.

Safety deposit box — Provides a safe place with little chance of loss or damage; however, for an executor to access the deceased's safety deposit box, a financial institution may require a grant of probate confirming the executor's authority, creating a "catch-22" situation as this often cannot be obtained without the original will.

Home's personal safe — This may provide easy access for an executor, yet may not be damage-proof (fire or flood), theft-proof or loss-proof (when considering multiple residence moves).

Additional Considerations: The Power of Attorney (POA)

When storing POA or related documents (mandate, personal directive, living will; the names vary by province/territory), there may be additional considerations. Unlike a will, these documents come into effect during your lifetime and possibly in the event of an emergency. As such, they may need to be accessed quickly or urgently.

As you think about your situation, here are four questions to ask:

- Do you and your executors know the exact location of your original estate planning documents?
- If stored with a legal professional, are you aware of their current status? If not stored with a legal professional, is your executor able to access the original document?
- Are POA-related documents (or notarized copies, if required*) quickly accessible in the case of an emergency?
- Do estate planning documents remain appropriate for your current circumstances? As always, a regular review may be helpful.

*Depending on the province of residence.

Regrets? We've Had a Few — The Timing of CPP Benefits

Since most Canadians opt for early benefits, there has been increased media coverage discussing reasons to delay.

As a reminder, starting Canada Pension Plan (CPP) benefits before age 65 (as early as 60) decreases payments by 0.6 percent per month, whereas delaying beyond 65 increases payments by 0.7 percent per month, up to 42 percent for CPP (age 70). Actuarial studies continue to show that many are better off delaying since the break-even age* falls below the average life expectancy. Living beyond the break-even age means that delaying benefits yields a larger total benefit.

Yet, the decision is often impacted by factors other than longevity, such as the need for income. As more Canadians work past age 65, the impact of retiring early, or late, should also be a consideration. Working past age 65 and delaying benefits can lead to a potentially greater benefit. This is because CPP benefits are generally calculated using the best 40 years of income, usually between ages 18 and 65. Since lower-earning years tend to be at younger ages when first starting a career, extending the working years past age 65 may add higher-earning years to the calculation and increase the benefit.

The good news is that it doesn't work the other way: Any low-earnings years past the age of 65 have no effect on the CPP benefit calculation. Yet, if you retire before 65 but wait to take benefits, the zero-earnings years have the potential to negatively affect your benefit. For example, retiring at age 60 and waiting to collect CPP at age 65 could add five zero-earning years to the calculation.

Indeed, the words of Frank Sinatra may be a reminder to carefully consider the decision. Here are some perspectives from Canadians who had "regrets" after starting benefits early:[1]

A reduction in survivor benefits — A widow receiving survivor benefits from a deceased spouse was unaware that starting her own CPP would change her maximum entitlement. She didn't know that survivor benefits would change at age 65 and hadn't considered the impact of deferring her own benefits until after 65.

Leaving more for beneficiaries — Since he didn't need funds, one man wished he had waited after realizing how much more he could leave for beneficiaries. A study by FP Canada (2020) suggests taking CPP at age 60 instead of 70 may forgo $100,000 in lifetime benefits.[2]

Inflation indexing — One retiree recognizes that had he waited, the multiplier for starting later would have further enhanced the amount indexed for inflation, leading to even greater benefits.

Returning to work — One man began CPP at age 60 and retired at age 63 but then decided to go back to work. He regrets starting early due to the taxes paid on the CPP after returning to work.

*The age at which total benefits received by delaying CPP payments exceed total benefits received by starting CPP payments earlier. 1. https://www.theglobeandmail.com/investing/globe-advisor/advisor-news/article-these-canadians-wish-they-had-waited-to-take-their-cpp-benefits-heres/; 2. https://www.fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp_qpp-reseach-paper.pdf, December 2020.

■ Planning Ahead for a Generational Wealth Transfer

Lessons in Financial Management: It's Time to Bring Kids to the Table

Here are some ways I can help to support an eventual generational wealth transfer.

Many of us spend our lifetimes working hard to build wealth, but how do we preserve this wealth if we wish to create a legacy? You've likely heard of the "*shirtsleeves to shirtsleeves in three generations curse,*" which suggests that 70 percent of affluent families lose their wealth by the third generation.[1] This serves as a reminder that even if we do a good job managing our own wealth, it may amount to little if we neglect to prepare the next generation for success.

The basic lessons haven't changed: Imparting good saving and prudent spending behaviours, helping children to set and achieve goals and teaching the virtues of investing and growing wealth. In this modern era of connectivity, young people face new challenges: the escalating catering to instant gratification, "fear of missing out" (FOMO), social media pressures of keeping up with the Joneses and financial misinformation spread by "influencers," to name a handful.

The good news is that Canadians appear to be engaging in financial discussions with kids at earlier ages.[2] Indeed, the resources available through the education system still lack consistency, so having conversations at home can help kids get a head start.

Starting early can yield significant outcomes down the road. Learning the basics of saving and spending can help to prevent bad credit habits later — it isn't unheard of to see young people undergo credit counselling due to credit card delinquencies. Recognizing how saving and investing can grow funds over time may be eye-opening. I often remind young people of the benefits of starting early: investing $265 per month at age 25 would yield over $1 million by age 75 at a rate of return of 6 percent, but starting later at age 45 would require almost $1,000 per month. Even small lessons in financial literacy can help in setting longer-term goals.

The ultimate goal, of course, is to ensure kids achieve financial independence as adults. Instilling good financial skills at a young age can also help to preserve wealth upon a generational transfer.

If you don't know where to start, the table provides ideas for each stage of life. I am also here to act as a resource. In brief, here are some ways I have helped families with financial education:

- **Helping set up an in-trust account or small investment account.** This may include purchasing a GIC to teach younger folks about interest income or exploring mutual funds/ETFs or relatable shares (Apple, Disney, etc.) to help them learn how the stock market works.
- **Supporting family meetings** to help younger folks understand my role as an advisor and the services I provide: expertise, objectivity, planning and simplifying lives.
- **Helping young adults open and manage a TFSA or RRSP**, supporting them in identifying goals and treating them as individual clients to foster independence.

If you are looking for support as you plan ahead to achieve a successful generational wealth transfer, please get in touch.

1. https://www.nasdaq.com/articles/generational-wealth%3A-why-do-70-of-families-lose-their-wealth-in-the-2nd-generation-2018-10; 2. https://www.newswire.ca/news-releases/having-the-talk-with-your-kids-ahead-of-back-to-school-season-pc-financial-r-survey-finds-canadians-are-starting-to-talk-about-finances-earlier-811316772.html

Financial Lessons for Each Stage of Life

Under Age 10
- Introduce an allowance when work is done
- Teach savings through the use of a piggy bank
- Teach about basic costs through trips to the grocery store

Age 10 to 18
- Set up a bank account
- Teach high-level cash flow management: spend using cash and high-level budgeting
- Use debit cards to teach about reducing balances
- Encourage a part-time job to learn to earn money and pay taxes; help kids file tax returns; teach about contributing to the RRSP
- Teach about the RESP in preparation for post-secondary school

Age 18 to 24
- Introduce credit cards and debt; teach the value of a credit score
- Set financial goals for education
- Teach investing; Open TFSAs and other investing accounts

Age 25+
- Support discussions on career, home purchase, marriage/families
- Provide counsel on setting short, medium and longer-term goals
- Have family discussions about shared values, succession planning

With the Compliments of:

Peter Sorra, FMA, FCSI
Senior Investment Advisor
416 279 1447
peter.sorra@td.com

Patrick Luongo
Client Service Associate
416 279 0841
patrick.luongo@td.com

TD Wealth Private Investment Advice
2 St. Clair Ave. East, 2nd Floor
Toronto, Ontario M4T 2T5

Toll Free: 1 855 682 8358
Fax: 416 944 7175

New Clients By Referral Only

The information contained herein has been provided by J. Hirasawa & Associates for TD Wealth Private Investment Advice and is for information purposes only. The information has been drawn from sources believed to be reliable. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. 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. All third party products and services referred to or advertised in this newsletter are sold by the company or organization named. While these products or services may serve as valuable aids to the independent investor, TD Wealth does not specifically endorse any of these products or services. The third party products and services referred to, or advertised in this newsletter, are available as a convenience to its customers only, and TD Wealth is not liable for any claims, losses or damages however arising out of any purchase or use of third party products or services. All insurance products and services are offered by life licensed advisors of TD Waterhouse Insurance Services Inc. TD Wealth Private Investment Advice is a division of TD Waterhouse Canada Inc., a subsidiary of The Toronto-Dominion Bank. TD Waterhouse Canada Inc. - Member of the Canadian Investor Protection Fund. ®The TD logo and other TD trademarks are the property of The Toronto-Dominion Bank or its subsidiaries.