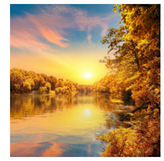
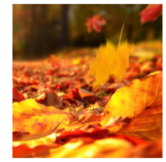
TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Autumn 2024





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In This Issue

To My Clients:

With the return of fall, many of us have geared up for a busy season: kids back at school, work schedules returning to normal and U.S. election season heating up south of the border. Market volatility also made a comeback over the summer after an unusually calm first half of 2024. During these times, don't let short-term fluctuations disrupt long-term financial plans. With the end of the year quickly approaching, please reach out if you need assistance with any year-end wealth management needs.

Here's to warm markets for the cooler days ahead.

Continued Growing Pains

"***Up North: On Top** — Life in Canada, Home of the World's Most Affluent Middle Class.*"
— New York Times, April 30, 2014[1]

This was the headline just a decade ago. The American middle class, "*long the most affluent in the world...lost that distinction*."[2] The new leader at that time? Canada — seen as a model for the rest of the world.

It's a perspective worth reflection given our current economic situation. The tables have since turned, and Canada's economy continues to experience growing pains, largely driven by poor productivity. We've fallen to second last among G7 nations, ahead of only Italy. Canadian workers produce only 70 percent of our U.S. counterparts' output.[3] The Bank of Canada (BoC) expressed concerns earlier this year, suggesting we face a "productivity crisis."

Productivity is crucial for economic growth, as evidenced by recent reports suggesting that real GDP per capita has lagged seven percent below its long-term trend. The BoC identifies three key elements for boosting productivity: i) capital intensity, to improve efficiency and output; ii) labour composition, to improve skills and training; and iii) multi-factor productivity, to use capital and labour more efficiently.[4] Opinions vary on the tactics needed to improve productivity, but include encouraging capital investment, lowering barriers to capital formation and foreign competition, including taxes and restrictions, and reassessing government spending, such as subsidies and expenditures that haven't contributed to growth.

The good news? We have a solid foundation for productivity. Labour supply, recently boosted by immigration, has helped. Notably, with shifting demographics, Canada leads the G7 nations in labour-force participation by women. We are among the hardest working globally, ranking 7th for highest working hours.[5] And Canada boasts one of the most highly educated populations in the world, second only to South Korea, which is crucial for driving innovation.

History reminds us that profound change is possible. In our lifetime, a striking example of economic improvement occurred in 1994 when Canada was referred to as "*an honorary member of the Third World*." We struggled with a vicious debt cycle and had the second worst fiscal position among G7 nations — ironically, like today, only Italy was worse. Yet, this would be the turning point: Then-Prime Minister Jean Chrétien and Finance Minister Paul Martin orchestrated one of the most dramatic fiscal turnarounds in history, achieving the greatest reduction in government spending since post-World War II. Canadian debt shrank from 68 percent of GDP in 1995/96 to 29 percent by 2008/09, and the budget achieved surpluses for 11 consecutive years. Our fiscal position became the best of the G7. While it wasn't without sacrifice, we notably avoided recession during that period. "*After wrestling the deficit to the ground*," we reaped "*the payoff decade,*" during which Canada outperformed the G7 in growth, job creation and inward investment.[6]

This should serve as a reminder that economies and markets will ebb and flow over time; one reason to support the importance of diversification, strategic asset allocation and risk management in investing. Equally important, let's not overlook the potential for substantial change. Now, it's time to get started.

1. https://www.nytimes.com/2014/05/01/upshot/canadians-have-plenty-of-concerns-but-also-a-sense-theyre-better-off.html; 2. https://www.nytimes.com/2014/04/23/upshot/the-american-middle-class-is-no-longer-the-worlds-richest.html; 3. Based on 2022 figures; https://www.ft.com/content/67e97cc4-6ab0-4e78-b4a8-7c97b8e52ada; 4. https://www.bankofcanada.ca/2024/03/productivity-problem/; 5. https://www.visualcapitalist.com/ranked-average-working-hours-by-country/; 6. https://financialpost.com/uncategorized/lessons-from-canadas-basket-case-moment

Perspectives on Portfolio Management

The Many Benefits of Portfolio Rebalancing

Consider the additional benefits that can come from portfolio rebalancing.

Rebalancing a portfolio involves adjusting the allocation of assets to bring it back in line with your original investment strategy, ensuring it remains consistent with your risk and return profile. Why is this important? Over time, your asset mix may have drifted away from its intended asset allocation. For instance, a period of strong growth in one industry or sector may cause an investment to become an overly large proportion of a portfolio. Rebalancing ensures that no single asset class or investment becomes disproportionately large, helping to manage and control risk exposure. No matter how promising the outlook of any company, industry or asset class, maintaining an appropriate balance according to your risk tolerance can help to limit the downside impact on your investments.

Reviewing and rebalancing portfolios from time to time is necessary for diversification and asset allocation to be effective; yet, consider also that an approach to rebalancing may provide other benefits:

Helps to manage emotions — Rebalancing can help to separate emotions from buy and sell decisions as it is based on objective criteria such as the allocation of asset classes rather than sentiment. While we all try to adhere to the idea of 'buy low and sell high,' this may be difficult to do in practice. Often, stocks are priced low during market downturns when sentiment is at lows and investors are focused on selling. Conversely, when market euphoria is at highs, it may be difficult for investors to consider selling.

Supports deploying capital — It may not always be necessary to sell to get a portfolio back in balance. Sometimes you can do an effective job over time by investing new cash flow into asset classes that are now underweight. This approach not only brings the added discipline of focusing on potentially undervalued sectors or asset classes for new investment ideas but may also align with the goal of 'buy low and sell high.'

Matches gains with losses — Where a review suggests it would be prudent to sell part of an overweight position, remember that gains realized outside a registered plan are subject to capital gains tax. To minimize the tax liability, there may be an opportunity to consider selling securities with losing positions to offset these gains. (To retain the position, consider buying back the security after the 30-day waiting period under the superficial loss rules.) Or, a previous net capital loss can be carried forward to the current tax year to offset gains. Within registered plans, there will be no tax implications if securities are traded and funds remain in the plan, making asset location a consideration when rebalancing.

Helps navigate an increased inclusion rate — With an increase to the capital gains inclusion rate,* rebalancing may spread out the realization of gains over time, rather than all at once. This may help take advantage of a lower inclusion rate for gains under $250,000 per year (for individuals).

Offers tax benefits through charitable giving — Donating appreciated holdings allows you to 'do good' with an added tax benefit. Gifting publicly-traded securities with accrued gains to a Canadian charity entitles you to a tax receipt for the fair market value and may eliminate the associated capital gains tax (page 3).

The additional benefits that can come from rebalancing may be good food for thought when considering effective portfolio management.

**At the time of writing, the implementation bill has not achieved royal assent.*

An Increased Inclusion Rate: Estate Planning for Capital Gains

An increased capital gains inclusion rate* has renewed discussion on the impact of taxes on the value of an estate.

Select Top Gift, Estate & Inheritance Taxes Worldwide

Belgium — 80%	*Germany — 50%*
Japan — 55%	*South Korea — 50%*
Denmark — 52%	*France — 45%*

Does not include exemptions. Presented for general interest only. https://www.ey.com/en_gl/tax-guides/worldwide-estate-and-inheritance-tax-guide

Unlike other countries, Canada doesn't have an official estate tax. Instead, the capital gains tax, alongside estate administration or probate fees (where applicable), acts as a sort of 'de facto' estate tax. Generally, in the year of death, an income tax return must be filed for the deceased and capital property must be treated as though it was sold immediately prior to death (unless transferred to a spouse). As a result, any realized capital gains may be subject to tax. Since June, realized gains over $250,000 are subject to a higher 2/3 inclusion rate.*

Thinking ahead, there are steps that you can take to help minimize taxes in the year of death and maximize the future transfer of wealth:

Spousal Rollover — Assets transferred to a spouse (or to a qualifying trust for the spouse's benefit during their lifetime) are automatically considered to be transferred at cost, deferring the capital gains tax on the assets until the spouse sells them or passes away. If there are unused losses, tax deductions or credits in the deceased's final tax return, an election out of the tax-free rollover should be made to realize sufficient capital gains to make use of these tax benefits.

Giving While Living — Gifting assets to beneficiaries during your lifetime can strategically reduce an estate's value, thus reducing the potential future tax liability. It is important to note that there may be tax implications for lifetime gifts of capital property, depending on the asset and the recipient. If your estate plan involves giving to charity, you may receive greater tax benefits by making gifts annually to use donation credits and reduce a tax liability instead of having a large donation credit at death which may not be fully used.**

Plan Ahead to Use Available Deductions/Credits — For example, the principal residence exemption can eliminate capital gains tax on a principal residence. Qualified small business corporation shares may be eligible for the lifetime capital gains exemption (LCGE) currently at $1.25 million. Planning is important; for instance, certain conditions may require years of planning to satisfy the LCGE.

Other Planning — There may be other strategies, such as using life insurance or trusts, to reduce tax liabilities at death. Working alongside tax advisors, we can help. For a deeper discussion, please get in touch.

*As opposed to the previous 1/2 inclusion rate on all realized capital gains. *At the time of writing, the implementation bill has not achieved royal assent.* **There may be flexibility if the estate is a "Graduated Rate Estate."

Generational Wealth Planning

You Asked: Should I Use the RESP for Legacy Planning?

The RESP may be a consideration to support legacy planning for grandkids, but here are three unintended consequences.

Kids these days may indeed have it harder — that is, when considering the growing cost of higher education. Back in the 1970s and for part of the 1980s, average undergraduate tuition was a 'mere' hundreds of dollars. Today, it hovers around $7,000, often soaring beyond $30,000 after factoring in room and board and other supplies! It is therefore not surprising that many grandparents contemplate supporting the cost of a grandchild's education.

"Let me tell you how it was back in my day..."

If you are...	*Undergraduate tuition cost...*
20 years old	$7,360 (in 2024/2025)
40 years old	$4,141 (in 2004)
50 years old	$2,221 (in 1994)
60 years old	$977 (in 1984)
70 years old	$547 (in 1974)

Statistics Canada Table 37-10-0150-01. Assuming attendance at age 20.

Some have asked whether the Registered Education Savings Plan (RESP) is a good tool for legacy planning. The RESP offers many benefits: tax-deferred growth within the plan, earnings taxed at the child's tax rate when eventually withdrawn and, of course, the Canada Education Savings Grants — funds paid into the plan by the federal government, potentially adding $7,200 per qualified beneficiary.

While grandparents can open the RESP as the "subscriber" for the benefit of a grandchild, there may be certain unintended consequences. Here are three, along with potential mitigating tips:

What if the child does not pursue a higher education? If the RESP is not used for qualifying educational purposes, there may be potential tax consequences. To mitigate these, it may be possible to transfer up to $50,000 of the RESP's accumulated income to the subscriber's RRSP (subject to available contribution room). Yet, grandparents over age 71 cannot hold an RRSP and are likely to encounter tax implications. ***Tip:*** One approach might involve grandparents setting up a family plan for multiple beneficiaries. If one beneficiary does not pursue a qualifying education, the plan can benefit other beneficiaries. Another alternative would be for parents to set up the RESP and have grandparents gift funds as contributions.

What if you retire abroad? If the RESP subscriber moves from Canada, there may be tax repercussions. For instance, U.S. tax authorities do not recognize the RESP's tax-deferred status and view it as a foreign trust. Consequently, annual income and grants earned within the RESP are subject to U.S. tax for the subscriber. ***Tip:*** Before leaving Canada, transfer the RESP to one with a Canadian resident subscriber.

What happens in the event of death? Many incorrectly assume that RESPs are treated in the same way as RRSPs upon death and bypass the subscriber's estate. However, if there's no surviving joint subscriber or alternate arrangement, RESP assets generally become part of the deceased subscriber's estate. As such, the plan would be collapsed, triggering tax implications for income and grants, with the value becoming part of the estate property to be distributed to estate beneficiaries. These beneficiaries may not be the same as the RESP beneficiary. ***Tip:*** To ensure the intent in setting up the RESP is preserved upon the subscriber's death, instructions for the RESP can be directed in the last will, such as naming a replacement subscriber.

The Final Months of the Year Are Upon Us: The Season of Giving

With changes to the tax rules in 2024, the donation of appreciated securities can still make good sense.

'Tis almost the season of giving. Given the market's run in 2024, if you plan on taking equity gains and are facing the prospect of a substantial capital gains tax liability, why not consider doing good, while saving on tax at the same time?

It's never pleasant to see asset values reduced by taxes, especially when realized gains above $250,000 per year are now taxed at a 2/3 inclusion rate instead of the previous 1/2 rate.* However, by donating appreciated shares "in kind," you will receive a donation receipt for the gross value of shares and not be subject to the capital gains tax liability. Shares must be donated — do not sell them first and donate the proceeds as part of the tax benefit will be lost.

For high-income earners subject to the alternative minimum tax (AMT), note that the rules surrounding donations were amended for 2024. Alongside an increase in the AMT tax rate to 20.5 percent (from 15 percent) and exemption base to $173,000 (from $40,000), a taxpayer can now only deduct 80 percent of the donation tax credit (down from 100 percent) to reduce AMT payable. Also, 30 percent of capital gains on the donation of qualifying securities is now included in the AMT base (from the previous 0 percent). This may lead to unintended tax consequences for large donations.

**At the time of writing, the implementation bill has not achieved royal assent.*

If you plan to donate appreciated shares, be sure to give enough time before year end. The donation must be received by the charity before the calendar year end for it to apply to your 2024 personal income taxes, and time is often needed to settle the transaction. Please call for assistance.

Five Interesting Charity Facts

- France was the first country to forbid food waste by supermarkets; by law, they must donate it to charity.[1]
- Late actor Paul Newman commercialized his homemade salad dressing in 1982. Newman's Own donates all after-tax profits to charity: US$600 million to date.[2]
- The 'Giving Pledge' consists of over 240 of the world's wealthiest who have pledged at least half of their wealth to charity.[3]
- George Lucas sold the rights to Star Wars in 2010 and pledged the majority of the $4 billion in proceeds to educational charity.[4]
- John F. Kennedy donated his entire presidential and congressional salaries to charity during his time in office.[5]

1. npr.org/sections/thesalt/2018/02/24/586579455/french-food-waste-law-changing-how-grocery-stores-approach-excess-food; 2. newmansown.com; 3. givingpledge.org; 4. forbes.com/sites/briansolomon/2012/11/04/donating-star-wars-billions-will-make-george-lucas-one-of-the-biggest-givers-ever/; 5. upi.com/Archives/1962/11/14/JFK-Donates-Full-Salary-To-Charity/3714224962880/

Planning Ahead for the Care of Loved Ones

Estate Planning: Two Often Overlooked Areas — Digital Assets & Pets

In your estate planning, have you taken into account two often overlooked areas: your digital footprint and pets, if any?

Your Digital Footprint May Be Larger Than You Think!

As we spend more time online, our digital footprints have expanded. Yet, digital estate planning is commonly overlooked, often leaving loved ones the challenge of navigating a complex web of online assets and accounts. It's important to consider the way we will eventually transfer these assets, and not just for their potential monetary value. Many digital assets contain personal information that can be used by fraudsters to target the deceased or, worse still, relatives who are vulnerable during this difficult time. Others hold sentimental value: photos or videos can provide comfort to those left behind. Without planning, accessing these accounts may be challenging for loved ones.

Here are some digital assets to consider when estate planning, which may illustrate how our digital footprints have grown over time:

- **Online Financial Accounts:** Bank, investment, retirement, loyalty and cryptocurrency accounts with value.
- **Social Media Accounts:** Facebook, Instagram, LinkedIn and others for their personal/sensitive information or sentimental value.
- **Email Accounts:** Some contain sensitive/important information.
- **Digital Files:** Photos, videos, documents and other digital files stored on computers, smartphones or cloud storage services.
- **Domain Names/Websites:** May have financial/sentimental value.
- **Intellectual Property:** Copyrights, trademarks, patents or royalties associated with digital content such as ebooks, music or software.
- **Digital Memories:** Digital photographs, videos or other personal memories stored on devices, online or via the cloud.
- **Digital Subscriptions:** Streaming services, software or other services that may hold sensitive data or need to be cancelled.
- **Online Businesses:** If you own or operate an online business, it's important to plan for its succession or dissolution.

For a deeper discussion, or for an introduction to an estate planning specialist, please call the office.

Planning for Pets: A Formal Arrangement Can Help

Many pets are considered part of the family. Yet, pets are commonly overlooked in estate planning, perhaps because the focus tends to be on distributing assets/property. What many do not realize is that pets have historically been considered personal property in Canada. This means it's not possible to name a pet as a beneficiary in a will. Laws are evolving — Alberta and Quebec have recognized animals as sentient beings and B.C. amended its *Family Law Act* so pets aren't considered property in separation/divorce proceedings.

In estate planning, it's important to plan for a pet's care. Some assume that family or friends will naturally take on the responsibility, but this isn't always the case. Without a formal arrangement, disputes or neglect can occur. It's also important to consider factors like the pet's age, health and specific needs when selecting a caregiver.

Some make provisions in a will for a pet's care, naming a beneficiary to receive the pet. Allocating funds for care should be considered as a beneficiary may decline the responsibility if they can't afford it. Making a monetary gift to a beneficiary can be made conditional on that beneficiary agreeing to take responsibility for the pet. Some owners explore the option of establishing a trust, where a third party holds funds for the pet's benefit. But, depending on the jurisdiction and the way in which the trust is structured, a "purpose" trust for a pet may not be legally enforceable. Even if a trust was valid, the chosen trustee may not necessarily adhere to the arrangement's terms. There may be other implications, such as tax or reporting obligations.

If no provision has been made, the executor decides what happens to the pet. As such, if you have specific wishes for your pet, it's important to include these in your estate plan.

The Bottom Line: Planning ahead for digital assets and pets may be some of the most thoughtful actions you can take for your loved ones.

With the Compliments of:

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