TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Summer 2024

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 advisors, we are 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

In This Issue

Plan Ahead: The Increasing Capital Gains Inclusion Rate ... 2
Where Is Your Original Will Stored? ... 3
Regrets? We've Had a Few: The Timing of CPP Benefits 3
Spring Recap: Budget 2024 — Five Things to Know 4

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To Our 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. We are here to tend to your wealth management, so you can focus on other important aspects of your life.

We hope your summer is filled with plenty of downtime.

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 reset 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.

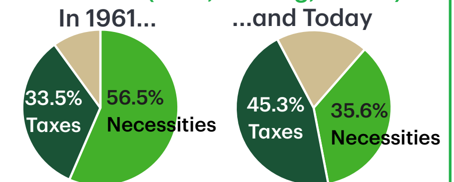
In Brief: Feeling as Though You Are Paying More Tax?

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]

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

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



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.

■ Changes to the Capital Gains Inclusion Rate...and More

Spring Recap: Budget 2024 — Five Things Investors Should Know

While there were no changes to personal or corporate income tax rates, here are some notable changes that may impact tax and wealth planning for investors.

On April 16, 2024, the federal government released its budget, with a focus on home affordability and reducing the cost of living to "strengthen the middle class."

From a housing perspective, the government has suggested its intention to convert public lands into housing, form a new housing infrastructure fund and increase the mortgage amortization for first-time homebuyers for new builds to 30 years (as of August 1, 2024). The budget also proposes increasing the Home Buyers' Plan (HBP) withdrawal amount from $35,000 to $60,000 after April 16, 2024. The HBP allows first-time home buyers a tax-free withdrawal from their Registered Retirement Savings Plan (RRSP), subject to repayment and other conditions. The budget proposes to temporarily defer the start of the 15-year HBP repayment period by an additional three years for those making a first withdrawal between January 1, 2022, and December 31, 2025.

There were no changes to the personal tax rates or the corporate income tax rates. However, some notable changes may impact tax and wealth planning for investors, including:

1. Capital gains inclusion rate — The budget proposes to increase the capital gains inclusion rate from 50 percent to 66.67 percent for capital gains realized on or after June 25, 2024, for corporations and trusts. For individuals, the increased inclusion rate will be applied to the portion of capital gains realized that exceeds a threshold of $250,000 per year.

2. Lifetime capital gains exemption (LCGE) — The budget proposes to increase the LCGE from the current amount of $1,016,836 to $1,250,000 to apply to dispositions that occur on or after June 25, 2024, and this will be indexed to inflation beginning in 2026.

3. Canadian entrepreneur's incentive — This new incentive proposes to reduce the tax rate on capital gains on the disposition of qualifying shares by an eligible individual by reducing the capital gains inclusion rate to one-half of the prevailing rate on up to $2 million of capital gains per individual over their lifetime, subject to various conditions. The limit will be phased in by increments of $200,000 per year, beginning January 1, 2025, and reaching the $2 million value by the year 2034. Once fully phased in, at proposed inclusion rates, this would generally allow two-thirds of $2 million in capital gains to be sheltered by this tax incentive (as only one-half of the proposed 66.67 percent would be subject to tax).

4. Alternative minimum tax (AMT) — The budget further amends the AMT rules. The AMT is a "parallel tax" calculation that prevents high-income earners and some trusts from paying little or no tax as a result of certain tax deductions and credits. Notably, the rules surrounding donations have been amended to now allow individuals to claim 80 percent of the charitable donation tax credit when calculating the AMT, instead of the previously proposed 50 percent. Employee ownership trusts would be fully exempt from the AMT.

5. Employee ownership trusts (EOT) — An EOT is a trust that holds shares of qualifying businesses for the benefit of employees to support succession planning and promote employee ownership of small businesses. The budget further clarified the conditions required to meet the $10 million capital gains exemption on the sale of shares to an EOT, as proposed in the 2023 Fall Economic Statement. Most notably, the exemption can be shared among multiple individuals and the exemption applies to qualifying dispositions of shares that occur between January 1, 2024, and December 31, 2026.

For more information, please see: https://www.budget.canada.ca/

Note: At the time of publication, these budget proposals have not been enacted into law. However, it is expected that these changes will achieve the support of the NDP and pass as intended.

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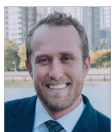

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