TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

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The Rising Tide of Optimism

Think kids these days are getting too much screen time? There's another demographic struggling to put down their phones: Baby Boomers. As one 83-year-old put it: "I'm so attached to this thing. If I leave the house and forget (it), I'll go back."[1]

We're staring at our screens on average 6 hours a day, and arguably more as we age.[2] Yet, this may not be good for our economic health. One reason is that the constant connectivity may be skewing our economic perceptions, and the media is playing a central role. While it has always tended to prioritize negative news to grab attention, this negativity has increased.[3] Today, we are being fed negative news at a greater frequency, with access 24/7 via our phones — no longer limited to the morning paper or evening news.

A recent study suggests that we would be better served if the media was more positive. Using the archives of almost two centuries of newspapers (while not establishing causality), it concluded that positive news-based economic sentiment can predict economic growth, even more than economic growth drives sentiment.[4] However, this sentiment has significantly declined despite far fewer economic setbacks. Research by former World Bank economist Charles Kenny from nearly a decade ago supports this stance: optimism correlates with faster productivity growth and stronger economic performance. Kenny once suggested, "*Even if our pessimism were grounded in reality, studies suggest it would be better for the economy if we pretended to be optimistic*."[5]

Today, there are reasons for optimism. We've achieved tremendous progress in this economic cycle. Canada's household net worth has surged by over 42 percent since the onset of the pandemic — an unprecedented rate.[6] Wealth, wages and employment[7] are higher today than they were before the pandemic. We are also living through a pivotal time due to the availability of big data, high-powered computing and advances in artificial intelligence (AI). Market strategist Ed Yardeni believes we're at the onset of a "productivity boom" akin to the Roaring 20s. While U.S. equity markets have handsomely rewarded many technology stocks, AI's productivity and growth potential are expected to reach far beyond the tech sector — as the saying goes, *a rising tide lifts all boats*.

The long-awaited recession in the U.S. appears unlikely for now, with U.S. GDP suggesting robust expansion. Canadian economic output has been comparatively sluggish, but let's not forget the central banks' objective in raising interest rates was to slow growth to curb inflation. Economic resilience has largely surpassed expectations partly due to low unemployment, which continues at relative lows. Canada's stock market has trailed due to its more cyclical nature, but is poised to benefit from interest rate stability and declining long-term rates. Corporate earnings may be driven by higher margins through efficiency gains and lower input costs, particularly as inflation moderates. The strength of our largest trading partner should help provide near-term momentum. And, the potential for interest rate cuts is expected to provide tailwinds to equity markets.

Looking ahead, these factors may be good food for thought — and a reminder to not overlook the economic power of positive thinking.

1. https://www.wsj.com/articles/who-is-more-glued-to-screens-grandkids-or-grandparents-11657976401: 2. https://pubmed.ncbi.nlm.nih.gov/37037046/; 3. https://www.bbc.com/future/article/20200512-how-the-news-changes-the-way-we-think-and-behave; 4. https://www.nber.org/system/files/working_papers/w32026/w32026.pdf; 5. https://www.bloomberg.com/news/articles/2015-01-08/how-optimism-strengthens-economies; 6. Statistics Canada Table: 36-10-0580-01; 7. Based on annual unemployment figures.

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To Our Clients:

Spring is the time when many of us are busy completing our income tax returns. Cast a critical eye as you prepare yours — are there opportunities to save tax dollars relating to your investment strategies? We'd be happy to share ideas.

While the skies have appeared comparatively cloudier for Canada's economic prospects, over time economies and markets will ebb and flow; one reason that supports the importance of diversification. We continue to take care in navigating these times so that we can arrive at our desired destinations. Should you have family or friends who could use solid investment advice and dependable service, we would be pleased to assist. Here's to many sunny days ahead.

Tom Dan

Support for the Rising Incidence of Disabilities

The Disability Tax Credit: Four Things Every Investor Should Know

Many individuals may not be aware that a loved one may be eligible for the Disability Tax Credit (DTC).

With an aging population, there has been a rising incidence of physical and mental disabilities. With greater awareness, many disabilities are also being diagnosed at a younger age.[1] Yet, there remain overlooked opportunities in wealth planning. The federal DTC is often considered a gateway to accessing other tax benefits and assistance programs, but many may not be aware that loved ones are eligible. Consider these situations where individuals may qualify:

- A child who suffers from ADHD;
- A senior whose daily living is impaired by cancer or Alzheimer's;
- An individual with Type-1 diabetes.

Eligibility is based on how the disability affects day-to-day living, not the diagnosis itself. In general, this includes those who suffer from a prolonged and present physical or mental impairment at least 90 percent of the time, for a continuous period of at least 12 months and are unable to perform certain functions necessary for everyday life (or it takes three times longer than those not impaired). The individual must be certified by a medical practitioner and an application must be approved by the Canada Revenue Agency (CRA).* Individuals of all ages have qualified for the DTC. Even those who work full-time but suffer from mental health challenges may be eligible.

Here are four things about the DTC that everyone should know:

1. Offers substantial tax benefits: This is a non-refundable tax credit that can be claimed on an income tax return. The federal disability amount for the 2023 tax year is $9,428 for those 18 years and older, with an additional $5,500 supplement for those under age 18.

2. Potentially retroactive: If you were eligible for the DTC in past years but did not claim it, you may be able to claim it going back 10 years. A credit retroactively applied may result in a refund on previous tax returns.

3. Beneficial, even if the individual has no taxable income: Any unused amounts may be transferred to an eligible supporting family member for that tax year, helping to offset their taxable income.

4. A gateway to other benefits: The DTC can help access other important benefits, notably the Registered Disability Savings Plan (RDSP), which can allow up to $200,000 of after-tax funds to grow on a tax-sheltered basis, subject to conditions. The RDSP also offers the opportunity for $3,500 in federal matching grants annually, to a lifetime maximum of $70,000, depending on the beneficiary's family income and the amount contributed. There are other federal and provincial/territorial benefits and programs. The DTC may also support the creation of a qualified disability trust, a valuable estate planning tool, to permit income to be taxed at graduated rates.

1. https://www150.statcan.gc.ca/n1/en/daily-quotidien/231201/dq231201b-eng.pdf; https://www.policyschool.ca/wp-content/uploads/2018/01/Disability-Tax-Credit-Dunn-Zwicker.pdf; *See: https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html

Don't Overlook the TFSA Danger Zone

The first four months of the year have been referred to as the "danger zone" for TFSA contributors.[1]

If you've made a Tax-Free Savings Account (TFSA) contribution in the first months of the year based on Canada Revenue Agency (CRA) *"My Account"* contribution room information, be aware that this data may not be up-to-date. When it comes to TFSA records, there is often a lag. According to the CRA, any contributions or withdrawals made in the prior year may not be reflected in current year contribution room until "after the end of February," since institutions have until the last day of February to electronically submit TFSA transactions to the CRA. However, as advisors, we have seen that the lag may extend to March or even late April.[1]

The consequence, of course, is the one percent per month penalty on excess TFSA contributions, which can add up to become substantial. And, it appears that a growing number of TFSA holders are being assessed penalties. The total amount of overcontribution penalties paid in 2022 rose to $132.6 million, more than triple the amount paid in 2019.[2]

There may be reasons for the rising penalties. CRA reporting lag times can create confusion. Some hold multiple accounts, leading to recordkeeping errors — the latest statistics show that 245,000 individuals held between five and nine TFSA accounts![2] Others may simply misunderstand the rules. For example, if you withdraw TFSA funds, remember that this amount only becomes available to contribute at the start of the following calendar year.

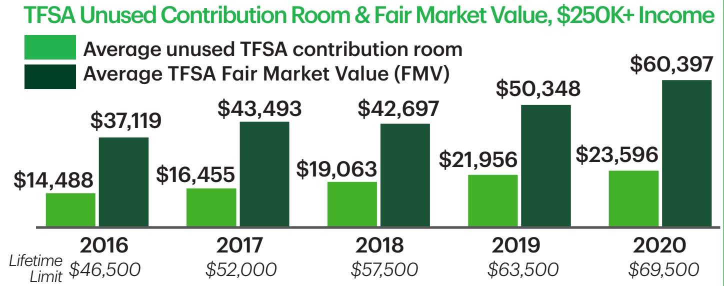
At the end of the day, it is the individual's responsibility to keep good records. If you rely on the CRA for contribution room data, a general rule of thumb is to wait until late April when all records should be updated. It's also useful to review your TFSA transaction summary online and report any discrepancies to the CRA. And, if you hold multiple accounts, consider the value of consolidating accounts to simplify any administrative complexity. If you have questions, please don't hesitate to contact the office.

1. "Beware this 'danger zone' for TFSA contributions," R. Carrick, Globe & Mail, 1/15/23, B8; 2. This may include inactive accounts. https://www.theglobeandmail.com/investing/personal-finance/article-people-keep-making-this-costly-tfsa-mistake-and-paying-penalties/

TFSA: The Overlooked Opportunity?

During tax season, we often focus on actions we can take to pay less tax. The TFSA is one of the more valuable "gifts" we have received from the government — the ability to grow funds on a tax-free basis over a lifetime. Yet, the latest data suggests many high-net-worth individuals may be overlooking the opportunity:

TFSA Unused Contribution Room & Fair Market Value, $250K+ Income



https://www.canada.ca/en/revenue-agency/programs/about-canada-revenue-agency-cra/income-statistics-gst-hst-statistics.html

■ Estate Planning: The Consequences of Executor Actions

Acting as Estate Executor? Be Aware of Losing GRE Status

It may seem like an innocuous act of kindness by the executor, or perhaps done for convenience, yet paying estate expenses out of pocket can lead to more serious consequences for a graduated-rate estate (GRE).

Have you been named as the estate executor/liquidator for a family member? If the estate is considered a graduated-rate estate, be aware that your actions could jeopardize its tax-preferred status.

First, Some Background on the GRE

A GRE is a valuable estate planning tool due to its tax benefits. Before 2016, Canadians could establish testamentary trusts in their wills to hold assets with income taxed at the same graduated rates as an individual. As of 2016, these testamentary trusts established at death became subject to tax at the highest tax rate, with the exception of a GRE that is taxed at graduated tax rates for up to 36 months from the date of death. Obtaining the GRE status allows the estate to save taxes, thus increasing the inheritance to be received by a beneficiary and potentially providing opportunities for claiming donation tax credits and implementing post-mortem tax planning for private corporations.

In general, to qualify, the estate must designate itself as a GRE on the first year's tax return. No other estate of the individual can be designated as a GRE. The estate must use the deceased's social insurance number on each tax return during the 36-month period following death. While these GRE-qualifying rules are commonly understood, estate planning specialists warn that many executors may not be fully aware of how easily the GRE status can be tainted.

GRE Status: The Consequences of Executor Actions

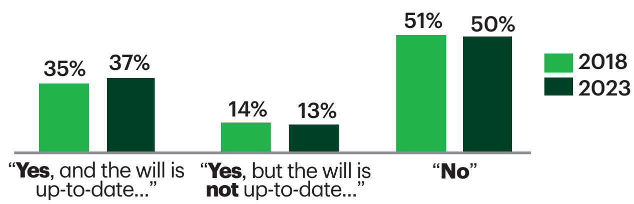
Many executors are unaware that certain executor actions can jeopardize the GRE status. In many instances, family members who are also estate beneficiaries may be appointed as executors. These individuals may decide to pay certain estate expenses out of their own pockets, such as funeral costs, taxes on estate assets or maintenance of the deceased's home. This may be done out of kindness or convenience, to help speed up the estate settlement process or because the estate doesn't have sufficient liquid assets. Since they are the ultimate estate beneficiaries, they may feel indifferent about incurring the expense personally. However, in doing so, these actions would be considered to be a "contribution" to the estate, which would cause the estate to lose its testamentary trust status and ultimately the valuable GRE status.

Other circumstances may put the GRE status in jeopardy, including if the estate borrows money from a beneficiary and fails to fully repay the amount borrowed within one year. These examples are meant to highlight the potential consequences of various executor actions. In this instance, executors/liquidators should be aware of the specific legal and fiscal criteria to maintain the GRE status and its tax benefits.

As you review your own estate plan, to learn more about the GRE or the role of the executor, consult an estate planning specialist.

Spring Cleaning: Time to Update Your Will?

While the pandemic appeared to have influenced an increasing number of Canadians to prepare wills,[1] recent figures suggest otherwise. How about you? Is your will up-to-date? If the answer is "no," why not add this to your spring cleaning?



1. www.newswire.ca/news-releases/pandemic-influenced-canadians-to-prepare-estate-planning-documents-832378633.html; 2. https://angusreid.org/canada-will-testament-intestate-dying-without-will/

A Reminder: Taxes on the Interest You Collect

Higher interest rates have brought a revival in the popularity of guaranteed investment certificates (GICs). Now that it is tax season, here is a reminder of their tax treatment.

Many GICs are locked-in investments, meaning that you can't cash them in until their maturity date. So, for a five-year GIC purchased on April 1, 2023, the invested capital must remain in place until April 1, 2028, to receive the interest earned. However, just because you haven't yet cashed in the GIC, it doesn't mean you won't receive a tax slip. For non-registered accounts, what is sometimes overlooked is that the associated tax liability must be reported on an annual basis (termed "accrued interest"), even though the earned interest has not yet been paid. Accrued interest is reported based on the anniversary date of the GIC's issue. Also noteworthy, this interest income is fully taxed at your marginal rate in the year it is earned.

So, for the five-year GIC in the example above, the interest accrued during 2023 would be the equivalent of eight months. For 2024, a full year of accrued interest would need to be reported. The exact amount would depend on when interest is calculated and compounded; in most cases, interest is calculated every six months, though some products may compound interest daily or monthly. A T5 information slip will be issued for interest amounts of $50 or more.*

The Tax Treatment of Bonds

The other common source of interest income comes from bonds. Interest earned in non-registered accounts, often paid semi-annually, must be reported each year on a tax return, regardless of the price paid to buy the bond. When purchased on the open market, the price of a bond may fluctuate based on changes to its stated interest rate. The price will also be impacted by the amount of interest that has accrued since the most recent payment date (or issue date for a new bond). When accrued interest is paid at the time of purchase, it may be deductible as an investment expense on a tax return for the year in which you bought the bond. When sold, a capital gain/loss based on the difference between the purchase and sale price must also be reported.**

*You are still required to report interest income of less than $50. **A bond purchased at a discount or premium determines the capital gain or loss, assuming it is held to maturity.

Women & Wealth: Navigating Shared Circumstances

Are there gender differences that impact the way we accumulate and manage wealth? In our experience, there is no "typical" woman investor. However, many women share certain circumstances that can present challenges to wealth accumulation:

- **Longer Lifespans:** Women can anticipate outliving men. The average life expectancy for Canadian females is 84 years, compared to 80 years for males.[1] As such, assets may need to support a longer time span.
- **Career Interruption:** Women are four times more likely than men to take on caregiving roles.[2] Many interrupt their careers to care for children or elderly parents; some are faced with the dual demands of caring for both. Reduced time in the workforce can impact wealth accumulation.
- **Wage Disparity:** Women typically earn approximately 89 cents for every dollar earned by their male counterparts.[3] Lower wages can lead to the accumulation of lower assets.

At some point, most women will be in charge of wealth. While there is a growing population of single Canadians, even those who are married may end up needing to manage finances as a result of divorce or widowhood. Today, there are nearly twice as many senior women living alone as there are men.[4]

Consider also that the wealth controlled by women is on an upward trajectory. By 2028, it is projected that women will oversee more assets than men — over $4 trillion, nearly double the $2.2 trillion they currently control.[5] This growth has been partially driven by increasing labour-market participation of women and their higher rates of post-secondary education compared to men.[6]

We are committed to helping navigate the challenges shared by many women in the wealth planning process. We address these circumstances through various means: Given wealth accumulation differences, it may be necessary to adopt a more aggressive savings plan to achieve comparable retirement outcomes. For those starting the investment journey later in life, a focus on strategic asset allocation may be increasingly important to balance risk and return considerations. We recognize the time pressures arising from managing multiple responsibilities, including work, household and caretaking duties. We are also here to promote financial literacy, from engaging in financial discussions explained in understandable terms, to supporting activities like legacy planning. We can also help guide financial discussions with (grand)daughters, as we have many resources to support these important conversations.

Understanding the unique challenges faced by many women, we are here to provide support in the pursuit of a healthy balance between wealth and life.

1. Statistics Canada Table: 13-10-0114-01; 2. https://www.theglobeandmail.com/business/article-women-in-the-sandwich-generation-are-overworked-exhausted-and-missing/; 3. https://www.cbc.ca/news/politics/pay-equity-legislation-1.6097263; 4. https://www.cbc.ca/news/business/canadians-living-alone-single-statistics-canada-1.5045116; 5. https://www.newswire.ca/news-releases/only-15-of-financial-advisors-in-canada-are-women-while-women-s-share-of-wealth-assets-expected-to-double-by-2028-841254590; 6. https://www.statcan.gc.ca/o1/en/plus/4823-women-labour-market-increased-potential-pay-and-participation

The "Swift" Effect: A Look at *Forbes'* #5 Most Powerful Woman

Q: *What has an estimated economic impact of more than $5 billion,[1] more than the GDP of 50 countries globally?*

A: *Taylor Swift*

While most of us do not fit the typical fan demographic of a "Swiftie," the staggering economic impact of Taylor Swift should make any head turn. Swift's *Eras Tour* has achieved the status of the largest music tour in history, surpassing Elton John's. When the tour arrives in Canada later this year, it has the potential to contribute an estimated $800 million to GDP, based on the average concertgoer's spend of US$1,300.[1]

Swift's rise to the fifth spot on ***Forbes' Most Powerful Women*** list shouldn't be overlooked. She joins prominent figures like ECB Head Christine Lagarde and U.S. Vice-President Kamala Harris. Beyond Swift's profound economic impact, her business savvy is equally enviable. As a ***Forbes*** article recently noted, Swift "symbolizes a new era of power, influencing people and culture independent of any country or company." Here are just some of her accomplishments:

- Took direct control over her business after rights to her recordings were sold in 2020 by rerecording albums that were part of the sale.
- Achieved billionaire status in October 2023,[2] joining Jay-Z and Rihanna — a rare breed of artists to hit ten-figure status.
- Holds a "brand" coveted globally — if Swift were a corporation, her "net promoter score" would make her the fourth most admired brand globally, tied with Apple.[3]
- Voted *Time* magazine's *2023 Person of the Year.*

1. https://www.globenewswire.com/en/news-release/2023/06/08/2684710/0/en/Generating-5-billion-the-Taylor-Swift-The-Eras-Tour-has-an-Economic-Impact-Greater-than-50-Countries.html; 2. https://www.bloomberg.com/graphics/2023-taylor-swift-net-worth-billionaire/; 3. https://www.questionpro.com/research/taylor-swift-study/; https://www.forbes.com/sites/moiraforbes/2023/12/05/the-worlds-most-powerful-women-2023-are-women-key-to-solving-the-global-leadership-crisis/

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