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April 2013

## 2013 Federal Budget

Highlights for Investors and Business Owners

- 2013 Budget Highlights- Changes that may impact you
- New Team Member- Join us in Welcoming Clare Brennan!
- Canadian Sector Performance
- Number Crunching



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The 2013 Federal Budget was released last month by finance minister Jim Flaherty. Much of the focus was on returning to a balanced budget by 2015-2016, one year earlier than previously anticipated. While the main focus was on continuing to stimulate growth in Canada's economy there are a number of important points that investors and business owners should take note of.

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## Highlights for Business Owners

### Changes to taxation of Dividends

The budget proposes a change that will significantly affect the rate of taxation on non-eligible dividends paid by private corporations. This measure will impact business owners and individuals who own private corporations but will not impact investors who receive dividends from public company shares. The gross up factor on non-eligible dividends will be adjusted downwards while the dividend tax credit revised slightly upwards with the net effect being that the federal tax rate on non-eligible dividends will go up to 21.22% from 19.58%.

This change will be effective on dividends paid after 2013. Until the provincial government releases its budgetary update we won't know the net effect on overall taxation. Be sure to speak with your tax professional as this may have an impact on your remuneration strategy.

### Capital Gains Exemption

Good news this time for incorporated business owners. The federal government has proposed to increase the exemption amount on capitals gains from the sale of qualified property, e.g. small business shares, farms and fishing property. The exemption amount goes from \$750,000 to \$800,000. The additional \$50,000 also applies to individuals who have already used their \$750,000 amounts.

This new amount will be indexed to inflation for years after 2014. Make sure to speak with your tax professional to ensure your affairs are properly structured to capture this amount.

## Highlights for Investors

### 10-8 Insurance Arrangement

The federal government has essentially proposed closing down one of the more aggressive insurance strategies by eliminating the deduction of interest expense. The strategy is one where an individual borrowed money and invested in a permanent life insurance policy. The policy guaranteed a rate of return of 8% while the investor paid an interest rate on the borrowed funds at 10%, hence the name 10-8 Arrangement. The individual pays no tax on the 8% interest received because it accrues within the insurance policy, but is able to write off the 10% interest expense, reducing the after tax cost of the strategy.

We had come across these in a number of situations but were quite aware that CRA was putting these plans under scrutiny, and they would likely be eliminated. For individuals that have these in place the government is providing a window of opportunity to wind these arrangements down. If you have one of these policies in place or know someone that does make sure to contact us for more information on your requirements.

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## Income Conversion Strategies

One of the loopholes that the Federal Government has proposed closing is the ability for certain funds to convert ordinary income into capital gains or even return of capital. This strategy was gaining in popularity and was a very effective way of increasing after tax returns on fixed income investments.

Effective March 13 the budget proposes that no additional contracts may be put in place to convert income to other types of investment return. This does not preclude existing contracts from running their course, and a number of these tax shields will remain in place until as late as 2016.

Please feel free to contact us should you have any questions about the potential impact the proposed budgetary changes may have on your financial situation.

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## A Big Welcome to Clare Brennan!



Clare has recently joined Davidson Professional Wealth Management as an Associate Advisor. She grew up in Toronto, the youngest of six children. She spent many hours studying singing and piano and spent her free time doing gymnastics and skiing. After graduating with a Bachelor of Commerce degree from McMaster University, Clare spent the next 26 years helping businesses grow their revenues through their print and online advertising campaigns. She helped businesses to flourish over the years and developed longstanding relationships that grew into wonderful friendships. The first 20 years were spent in the GTA followed by a transfer to a similar position in Waterloo with her then nine year old son, Jack and their puppy, Sam.

She spent the early years of her son's life involved in a variety of his sports- hockey, soccer, baseball, basketball, volleyball and golf. Jack is now playing competitive golf on the Whistlebear golf team and they keep busy throughout the season attending tournaments in Canada and the US. Clare also enjoys spending time with family, friends, listening to music and working out.

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Canadian Sector Performance	YTD	2012
Energy	3.4%	-0.6%
Materials	-10.7%	-5.7%
Industrials	13.7%	15.3%
Consumer Discretionary	11.8%	22.1%
Consumer Staples	5.2%	22.6%
Health Care	22.7%	24.7%
Financials	3.1%	17.6%
Information Technology	17.3%	-2.9%
Telecommunication Services	10.4%	11.5%
Utilities	-0.7%	4.0%

## Number Crunching

Year to date performance as of March 31<sup>st</sup>, 2013 of select currency and equity indices. All returns are in local currencies.

Equity Indices	YTD	2012
S&P/TSX Composite Index Total Return	3.3%	7.2%
Dow Jones Industrial Average	11.3%	9.1%
S&P 500 Total Return	10.0%	16.0%
NASDAQ Composite Index	8.2%	17.7%
MSCI EAFE	7.1%	17.9%
Currencies (in Cdn \$)	YTD	2012
US Dollar	2.4%	-3.4%
Euro	-0.5%	-1.1%

### Contact Us

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### E-Newsletter!

We are pleased to now offer our quarterly newsletter in electronic format. If you would prefer this method of delivery please email us at [chris.emms@rbc.com](mailto:chris.emms@rbc.com).



Source: RBC Dominion Securities

### Tax Planning Update:

2013 RRSP Contribution  
Limit: 18% of earned  
income to a maximum of  
\$23,820

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