

# Financial Forum

VIEWS AND OPINIONS FOR  
THE CLIENTS AND FRIENDS OF



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## MARKET UPDATE

### *What Moved the Markets in March?*

The S&P 500 returned 3.8% in March and 10.6% year-to-date, with all 10 sectors exhibiting positive returns for the month. Healthcare (6.4%), Utilities (5.4%) and Consumer Discretionary (4.9%) were the strongest performing sectors, while Energy (1.9%) and Industrials (2.2%) showed relatively smaller gains.

The TSX returned -0.2% for the month and 3.3% year-to-date. Sector performance was mixed, as Consumer Discretionary (5.3%), Healthcare (4.7%) and Tech (3.2%) exhibited strong returns, while Utilities (-2.1%), Financials (-2.0%) and Materials (-1.8%) helped pull the index into negative territory for the month.

Asian Indices (ex. Japan) struggled in March, with the Shanghai (-5.4%), Hang Seng (-2.8%), Sensex (-0.01%) and ASX (-2.0%) all posting negative returns. The Nikkei continued to exhibit strong positive momentum for 2013, returning 7.9% for the month and 20.1% year-to-date.

In global developments the euro area continued to be plagued by both political and economic uncertainties,

as negotiations between Cyprus and its euro-zone partners on a €10 billion bailout resulted in a bout of market volatility and a closing of Cyprus' banks for nearly two weeks. A final agreement, which included sizable losses for bank depositors as well as bondholders, was finally reached before access to liquidity via the European Central Bank (ECB) was cut off.

Further, developments in Italy did little to alleviate investor concerns over the situation in Europe as Italian politicians made little progress in forming a new government following the Country's inconclusive election.

As expected, Haruhiko Kuroda was officially nominated as the Bank of Japan (BoJ)'s governor. Mr. Kuroda, who is expected to offer specific policy proposals at the next BoJ meeting in April, is widely expected to pursue an agenda that will attempt to kick-start inflation in Japan's moribund economy. **DS**

*On March 21, 2013, Federal Finance Minister Jim Flaherty delivered the majority government's 2013 federal budget. The following is a summary of the key points that may affect you. Prior to implementing any strategies contained in this article, individuals should consult with a qualified tax advisor, legal professional or other applicable professional.*

## 2013 FEDERAL BUDGET – A REVIEW

Similar to last year's budget, many of the 2013 budget tax measures are aimed at tightening perceived loopholes or inequalities in various aspects of the tax system. The budget proposes a number of measures to address aggressive tax planning, clarify tax rules, and reduce international tax evasion.

### PERSONAL TAX CHANGES

#### *Lifetime capital gains exemption*

The budget proposes to increase the lifetime capital gains exemption to \$800,000 from \$750,000 on capital gains realized on the disposition of qualified farm and fishing property and qualified small business corporation shares.

This measure will apply to dispositions of qualifying property that occur on or after January 1, 2014. The budget also proposes to index the new limit to inflation beginning in 2015.

#### *Non-eligible dividends*

Canadian corporations may pay both "eligible" and "non-eligible" dividends. These dividends are taxed at preferential tax rates compared to some other types of income. Eligible dividends generally include dividends paid by Canadian public corporations and Canadian Controlled Private Corporations (CCPCs) that are subject to the general corporate tax rate. However, to the extent that the income of a CCPC is subject to tax at the small business rate, any dividends paid by the CCPC from that income would be considered a "non-eligible" dividend.

The budget proposes to reduce the dividend gross-up factor and the federal dividend tax credit applicable to non-eligible dividends paid after 2013.

The net effect is the dividend tax rate for non-eligible dividends moves up from 19.58% to 21.22%.

#### *Character conversion transactions*

The budget proposes rules to prevent the conversion of income to capital gains for those investments involving forward agreements having a term of longer than 180 days.

If a taxpayer's investment is affected, any returns taxed as income will be added to the investment's adjusted cost base (ACB) to prevent double taxation.

This measure applies to investments where the underlying forward agreements are entered into on or after March 21, 2013. This measure will also apply to forward agreements entered into before March 21, 2013 if the term of the agreement is extended on or after March 21, 2013.

This will impact almost all corporate class mutual funds and tax advantaged exchange traded funds.

#### *First-time donor's super credit*

The budget proposes to introduce a temporary First-time Donor's Super Credit (FDSC). The FDSC will supplement the Charitable Donation Tax Credit (CDTC) with an additional 25 percent tax credit for a first-time donor on up to \$1,000 of cash donations.

Accordingly, a first-time donor will be entitled to a 40 percent federal credit for donations of \$200 or less, and a 54 percent federal credit for the portion of donations over \$200 but not exceeding \$1,000.

An individual will be considered a "first-time" donor if neither the taxpayer nor their spouse or common-law partner has claimed the CDTC or FDSC in any taxation year after 2007.

The FDSC will be available in respect of donations made on or after March 21, 2013 and may be claimed only once in respect of any one taxation year from 2013 to 2017.

*Other minor notes*

1. Insurance tax strategies using leveraged insured annuities and 10/8 arrangements will be eliminated over a given period of time laid out by CRA (this is a major change however it will not affect many Canadian)
2. The budget proposes to make the cost of renting a safety deposit box from a financial institution non-deductible for income tax purposes. This measure will apply to taxation years that begin on or after March 21, 2013.
3. Labour Sponsored Venture Capital Corporations (LSVCC) invest primarily in small to mid-sized private firms which require funding for development or expansion. Currently a 15 percent federal tax credit is provided to individuals for the acquisition of shares of LSVCCs on investments of up to \$5,000 each year, providing up to \$750 in federal tax relief. The budget proposes to phase out the federal LSVCC tax credit by 2017.

**INTERNATIONAL TAX CHANGES***Non-resident trusts*

Existing rules which prevents the use by taxpayers of non-resident trusts to avoid Canadian tax are proposed to be expanded and clarified, applying to taxation years that end on or after March 21, 2013.

*International Electronic Funds Transfers*

The budget proposes to require certain financial intermediaries, such as banks, credit unions, caisses populaires and trust companies, to report international electronic funds transfers (EFTs) of \$10,000 or more to the CRA beginning in 2015.

*Update to Foreign Income Verification Statement*

CRA requires all Canadian resident individuals to report their foreign assets if the assets' cumulative cost exceeded C\$100,000 at any time in the calendar year as part of their income tax return filings using Form T1135 – Foreign Income Verification Statement.

The budget proposes that this form will be revised to require more detailed information, such as the names of specific foreign institutions and countries where offshore assets are located.

*Stop International Tax Evasion Program*

The CRA will launch the Stop International Tax Evasion Program which will reward an individual, meeting certain criteria, who provides information to the CRA that leads to the collection of more than \$100,000 of federal tax with a payment of up to 15 percent of the taxes collected. **DS**

In today's uncertain investment climate, strategies to reduce taxes and enhance your after-tax returns are more important than ever. To find out how you can benefit from any of the strategies discussed in this newsletter, simply call Dan Sexsmith at **416-842-3517** today.