FEREBEE WEALTH MANAGEMENT
Spring / Summer 2015 Newsletter

Natalie Ferebee
Investment and Wealth Advisor
250-770-1203
natalie.ferebee@rbc.com
www.natalieferebee.com

Stephanie Frey
Associate
250-770-1204
Stephanie.Frey@rbc.com

Lise Maurier
Associate
250-770-1204
Lise.Maurier@rbc.com

What Moved the Markets

The gradual recovery in the U.S. economy continues at an uneven pace, which was reflected in a mixed bag of data released in April. Job growth and manufacturing activity was weak while the bulk of consumer data remained firm. The combined breadth of data appears to have pushed out the likelihood of the first rate hike by the Federal Reserve in a decade to the second half of the year. The question put to economic forecasters now is whether this month's job hiring downshift (the largest miss since 2009) was a start of a broader decline in hiring. Reflecting diminished expectations for an interest rate hike in the near-term, the U.S dollar fell to a two month low versus a basket of global currencies. The FOMC's April 29th statement highlighted that the Federal Reserve would not raise the overnight target rate until it is was "confident that inflation will move back to its 2% objective."

The Canadian Federal Government indicated it would post the country's first surplus in seven years. The forecasted $1.4 billion surplus comes in the wake of an accumulated $150 billion in deficits since the financial crisis. The government now expects oil to average $54 per barrel for 2015, which represents a downward revision from its $81 forecast in November. Meanwhile, the Government of Ontario released a proposal to divest a portion of its interest in Hydro One via an initial public offering with 15% to be sold to the public initially, going to 60% over time. Ontario ran a $10.2 billion deficit in 2014 and a portion of the proceeds from privatization will go to pay down debt.

The International Monetary Fund (IMF) renewed its concerns over future Fed-rate-hikes as it warned of a potential 'super taper tantrum.' The IMF warning comes as a result of concerns that complacency has gripped the bond market and investors are discounting the potential for a future interest rake hike. The IMF warns that any signal of future rate hikes by the Fed could exacerbate a move in bond yields with the ripple effects cascading throughout the global economy. One measure of inflation expectations in the bond market ('inflation breakevens'), have increased 0.5% on a year-over-year basis, which suggests market participants have in fact become more accepting of a U.S. rate hike than the IMF's warning may imply.

RBC Wealth Management
Dominion Securities

2015 Federal Budget's Tax Measures

Key Highlights of the Budgets

- **An increase to the TFSA contribution limit to $10,000 per year beginning in 2015;**
- **Reducing the minimum withdrawal requirements for Registered Retirement Income Funds (RRIFs) beginning in 2015**
- **A decrease to the federal small business tax rate from 11% to 9%, to be implemented gradually from 2016 to 2019**
- **corresponding adjustment to the gross-up factor and dividend tax credit for non-eligible dividends**
- **The elimination of capital gains tax upon the donation of cash from the sale of private corporation shares and real estate.**

Personal Tax Changes:

Contribution Limit Increase

The budget proposes to increase the TFSA annual contribution limit to $10,000. This increase will apply as of January 1, 2015 and subsequent years and will no longer be indexed to inflation. This means that the TFSA contribution room for 2015 is $10,000 instead of $5,500. If you have already made your maximum contribution for 2015 you will be able to contribute an additional $4,500 in 2015. **If you have never made a TFSA contribution you can make a maximum contribution of $41,000 in 2015.**

Reducing the RRIF Minimum withdrawal Requirements

The existing RRIF rates are determined on the basis of providing a regular stream of payments from age 71 to 100 assuming a 7% nominal rate of return on RRIF assets and indexing at 1% annually. The rates are capped at 20% for ages 94 and above. The budget proposes to adjust the RRIF minimum withdrawal rates that apply from ages 71 to 94, on the basis of a 5% nominal rate of return and 2% indexing. There will be no change to the minimum withdrawal rates that apply to ages 70 and under, which will continue to be determined by the formula 1/(90 – age).

The effect of the new RRIF rates is to reduce the RRIF minimum withdrawals that are required and allow you to preserve more of your RRIF savings in order to provide income at older ages, while continuing to ensure the tax deferral on RRSP/RRIF savings. The new RRIF withdrawal rates will apply for the 2015 and subsequent taxation years. Transitional rules will allow RRIF holders who, at any time in 2015, withdraw more than the reduced 2015 minimum amount to re-contribute the excess (up to the new minimum withdrawal amount) to their RRIFs. Re-contributions will be permitted until February 29, 2016 and will be deductible for the 2015 taxation year. Similar rules will apply to minimum payments from a locked-in plan.

Home Accessibility Tax Credit

The budget proposes a new Home Accessibility Tax Credit. This proposed non-refundable credit will provide tax relief of 15% on up to $10,000 of eligible expenditures (to a maximum credit of $1,500) per calendar year per eligible home for a qualifying individual. Qualifying individuals are seniors, 65 years of age or older, and persons entitled to claim the Disability Tax Credit.

Lowering the Employment Insurance Premium in 2017

The budget proposes to implement a program that will ensure that Employment Insurance (EI) premiums are not higher than what is needed to fund the EI program. It is expected that this program will lower EI premiums from 1.88% to 1.49% in 2017, a 21% reduction.

Business Tax Changes

Small Business Tax Rate Decrease and Non-Eligible Dividends Adjustment

Currently, the small business deduction reduces the federal corporate income tax rate to 11% on the first $500,000 of qualifying active business income earned by a Canadian-Controlled Private Corporation (CCPC). The budget proposes to decrease this rate to 9%. This decrease will be implemented gradually from 2016 to 2019. In conjunction with the proposed reduction in the small business tax rate, the budget proposes to adjust the gross-up factor and dividend tax credit applicable to "non-eligible" dividends. Canadian corporations may pay both "eligible" and "non-eligible" dividends. Eligible dividends generally include dividends paid by Canadian public corporations and 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 effect of this measure will allow the corporation to retain more funds for reinvestment. However the overall impact on the corporate and personal integrated tax rate when the corporation's income is flowed out to its shareholders is small.

Donation of Private Corporation Shares or Real Estate

Currently, the capital gain triggered upon the disposition of publicly listed securities, ecologically sensitive land and certified cultural property donated to qualified donees is exempt from tax. The budget proposes to extend this exemption to the disposition of private corporation shares and real estate subject to certain anti-avoidance rules.

While it has been the long-standing practice of Canada Revenue Agency (CRA) to allow taxpayers to file their tax returns based on proposed legislation, a taxpayer remains potentially liable for taxes under current law in the event that a budget proposal is not ultimately passed. Therefore, if proposed legislation does not become law, it is possible that CRA may assess or re-assess your tax return based on existing legislation. It is recommended that you consult a professional tax advisor to assist you in assessing the costs and benefits of proceeding with specific budget proposals as they relate to you.

For more information on topics discussed in this article, or to obtain the full article on the proposed Federal budget's tax measures please contact Stephanie Frey at 250-770-1204.

Income Splitting

Is income splitting right for you? This question seems to be asked more and more. Here are the basics on income splitting, and some examples of eligible and ineligible income types.

Pension Income Splitting – The Basics

If you or your spouse receives eligible pension income during the year, you and your spouse can split or allocate the eligible pension income for tax purposes. Generally, you or your spouse can allocate an amount of 0% to 50% of the eligible pension income. In order to lower your family tax bill, the higher income earner will generally allocate their eligible pension income to the lower income earner.

Eligible Pension Income

Only certain income is eligible to be split under the pension income splitting rules. The type of income that is eligible also depends on the age of the person who is the primary recipient of the income. The age of the spouse who is being allocated the eligible pension income is not relevant for the purposes of the pension income splitting rules.

In most cases, if you are under 65 during the entire tax year, you will only be able to split the payments you directly receive from a registered pension plan or a Saskatchewan Pension Plan (SPP).
If you are 65 or older by the end of the tax year, you are eligible to split more types of income with your spouse.

For Primary Recipients Who Are 65 Years of Age or Older During the Year:

1.a life annuity payment from a superannuation or pension plan (including the Saskatchewan Pension Plan);
2.a life annuity payment from a Retirement Compensation Arrangement (RCA);
3.an annuity payment from an Registered Retirement Savings Plan (RRSP), which is an old insurance product no longer available;
4.a payment from a Pooled Registered Pension Plan (PRPP);
5.a payment from a RRIF, LIF, RLIF, LRIF or PRIF;
6.an annuity payment from a Deferred Profit Sharing Plan (DPSP);
7.a payment (including the income portion) from a regular annuity or an income averaging annuity contract; and
8.payment from certain foreign pension plans (including U.S. Social Security).

Income That Does Not Qualify

The types of income which do not qualify for pension income splitting include:
•Old Age Security (OAS) benefits;
•Canada Pension Plan (CPP) benefits;
•Quebec Pension Plan (QPP) benefits;
•death benefits;
•retiring allowances;
•RRSP withdrawals other than annuity payments from an RRSP;
•amounts from a RRIF that are transferred to an RRSP, another RRIF, or an annuity;
•any foreign source pension income that is tax-free in Canada;
•income from a U.S. Individual Retirement Account (IRA); and
•amounts received from a salary deferral arrangement.

For more information on income splitting, contact Natalie @ 250-770-1203 or 1-888-523-6888.

TFSA or RRSP

Another question we get asked on a regular basis: Should I contribute to a TFSA or an RRSP? There is no 'one size fits all' retirement plan; however, below are a couple points to consider.

New contribution room is created each year

•TFSA - $10,000 for 2015 ($5,500 for the years of 2013 to 2014 & $5,000 for the years 2009 to 2012.
•RRSP - 18% of previous year's earned income, less any pension adjustment, up to the maximum annual RRSP contribution limit for the year (max for 2015 is $24,930)

Carry-forward of unused contribution room

•TFSA - Unused contribution room carried forward indefinitely
•RRSP - Unused contribution room carried forward until the year in which you turn 71

Need earned income to contribute?

•TFSA – No
•RRSP – Yes

Ability to make contributions

•TFSA - Minimum age 18 -no maximum age
•RRSP - Start contributing as soon as you start earning income - until the end of the year in which you turn 71

Are contributions tax-deductible?

•TFSA – No
•RRSP - Yes, reduces taxable income

Do savings grow tax-free or tax-deferred?

•TFSA - Tax-free (never taxed)
•RRSP - Tax-deferred (not taxed until withdrawn)

Tax implications of withdrawals

•TFSA - Withdrawals are tax-free
•RRSP - Withdrawals are added to your taxable income in the same year the funds are withdrawn

Can I withdraw savings for any reason?

•TFSA - Yes, at any time (depending on what you invest in)
•RRSP - Yes, although the amount of withdrawal is considered earned income and taxes are withheld at the time of the withdrawal (unless participating in the Home Buyer's Plan or Lifelong Learning Plan)

Do withdrawals affect contribution room?

•TFSA - Amount of withdrawals are added to contribution room starting the following calendar year
•RRSP - No, as contributions are based on previous year's earned income

Do withdrawals affect government benefits?

•TFSA - Income earned and withdrawals will not affect eligibility for income-tested government benefits and tax credits(ie. OAS/GIS).
•RRSP - Withdrawals could affect eligibility for income-tested federal government benefits and tax credits since withdrawals are considered taxable income

Are there over-contribution penalty tax?

•TFSA - Yes; excess contributions subject to a penalty tax of 1% per month.
•RRSP - Yes; excess contributions are subject to a penalty tax of 1% per month. Penalty tax only applies if you exceed the $2,000 lifetime over-contribution amount

Am I required to convert my plan at a certain age?

•TFSA – No
•RRSP - Yes — must convert an RRSP to a maturity option such as a RRIF or an annuity by the end of the year you turn age 71 or chose to close the plan.

Consider the following example:

If you held $50,000 in both your TFSA and your RRSP at retirement any withdrawals from your RRSP would be taxed at 30%. The withdrawal would then be added to your income for the year. TFSA withdrawals are not taxed, and therefore not added to your income. When doing an RRSP withdrawal the extra added income could result in a claw back of your OAS as it would increase your income level. This is not the case with TFSA withdrawals as the withdrawal is never added to your income.

If you would like more information on Tax Free Savings Accounts, please contact Natalie @ 250-770-1203.

Strawberry jicama cucumber salad

A refreshing citrus picnic salad with a mixture of strawberries, jicama, cucumber, jalapeno, and cilantro topped with a light dressing of lime juice, no-calorie sweetener, olive oil, and poppy seeds.

Serves 4 | 130 Calories | 10 mg Sodium

Ingredients

2 cups of strawberries, washed, hulled, chopped
1 jicama, peeled chopped
1 small jalapeno, seeded, finely chopped
1 Tbsp. cilantro, finely chopped

Dressing:
2 Tbsp. lime juice, fresh OR from jar
1 Tbsp. extra-virgin olive oil
1 Tbsp. no-calorie sweetener (granulated, 1 1/2 packets)
1 tsp. poppy seeds

Directions:

1. In a medium bowl, combine strawberries, jicama, cucumber, jalapeno, and cilantro. Toss lightly.
2. In a small bowl, whisk together lime juice, olive oil and no-calorie sweetener.
3.Add lime juice mixture to strawberry mixture and toss lightly.
4.Sprinkle with poppy seeds.

Additional Tips;
Serve chilled as a salad or paired with grilled chicken or pork.

Important notes and key dates:

Natalie wil be in Terrace June 22-23
Natalie will be in Smithers June 24-26
Contact us today to contribute an extra $4500 to your TFSA
Go paperless email Stephanie to set up E-statements

Need online banking help? Call Stephanie today @ 250-770-1204 for a tutorial.