THE FORTNIGHTER

October 25, 2013 – Issue #27

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Governments around the world are increasingly looking for help in "balancing" their budgets and those in Canada are no exception. Tis better to receive than to give is a long-standing government tradition - and that means collecting more tax revenues are the first order of business. And whether the tax collectors are in Ottawa or one of the provincial capitals, most are getting in the game.

This issue of the Fortnighter is not about governments or taxes, however, it's about NUMBERS - and how easy it is to gloss over important financial information when the numbers sound insignificant – call it numerical semantics, if you will.

Take B.C.'s new "temporary" 2014/2015 tax hike for those of you audacious enough to earn $150,000 or more a year. Your provincial tax rate on earnings above $150,000 will go from 14.7% to 16.8%. Now, quickly – how much is the provincial tax rate on income over $150,000 increasing? If you said 2.1%, which is the obvious answer, that's incorrect. A 2.1% increase would have taken the 14.7% rate to 15.0%. If you said 14.3%, correct! (16.8%-14.7%/14.7% = 14.3%).

Expressed as a percentage, it becomes evident that this is a pretty significant increase – far worse than "a couple of percent" might sound at first glance. And the world of finance is full of these seemingly innocuous situations.

My favorite, and the one that I believe is the most relevant to investors, is how important an extra 1% or 2% in rate of return is. Increasing your rate of return from, say, 4% to 6%, can have huge implications for most investors – and is one of the main reasons, I believe, even conservative investors owe it to themselves to seek out the higher returns of the equity markets.

Here's the math: Let's say Mr. Smith earns 4% on a portfolio of bonds and GICs in a taxable account. He's in a modest, 30% marginal tax bracket and inflation is 2%. First of all, taxes reduce his net return on the portfolio down to 2.8%. Subtract inflation from that and his net-net is 0.8%. That's what his real return - his purchasing power, is. It's barely break even.

Now, say Mr. Smith puts ¼ of his portfolio into equities and that ¼ earns 8%. His overall return then rises to 5%. Soooo, if we remember the B.C. tax exercise, his returns have increased 25% - pretty good! But wait, there's more. Let's now take out taxes and inflation. Assuming that his equity returns are taxed at roughly half the rate of his interest income, his portfolio's after-tax return then drops to 3.8% and his net-net, after inflation number drops to 1.8%. Now, 1.8% doesn't sound like much but it's **125%** more than the net-net return on the all-income portfolio!!!

Hint: That might just make up for that 2.1% (sorry, 14.3%) tax increase.

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