Michie Wealth Management's Quarterly Investment Update

Wealth Management Dominion Securities

Winter 2018

The Michie Wealth Management Group of RBC Dominion Securities Inc.

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"We build our business on integrity and service. The highest compliment we can receive is the referral of friends, family and business associates. Thank you for your Trust."

2017 Tax Preparation Reminders

With the 2017 personal income tax return filing deadline fast approaching, this is a great time to see if you are taking advantage of all the tax benefits to which you are entitled. The following are items you may want to consider when preparing your 2017 personal income tax return.

Filing deadlines

- Generally, the deadline for filing your 2017 income tax return with the CRA is April 30, 2018. If you or your spouse were self-employed, you will have until June 15, 2018 to file. Regardless of your filing deadline, your taxes owing for 2017 should be paid on or before April 30, 2018.
- If you do not pay your balance owing by April 30, 2018, the CRA will charge compound daily interest on any unpaid amounts at the CRA prescribed interest rate.

Capital gains and losses

- If, after netting your capital gains and losses realized in the year, you have excess capital losses, consider completing the CRA Form T1A, *Request for Loss Carryback* to carry back the remaining capital losses to offset any capital gains that you have reported in any of the three previous tax years.
- If you have a taxable capital gain in the year, determine whether you have any unused net capital losses available carried forward from previous years. You may be able to apply these losses against your current capital gains to reduce your taxes payable.
- If you sold your principal residence in 2017, you must report the sale on *Schedule 3, Capital Gains (or Losses)* of your income tax return for the year.
- You also need to make the principal residence designation in *Schedule 3* if you wish to claim the principal residence exemption.

Pension income splitting

- Consider splitting up to 50% of your eligible pension income with your spouse to lower your overall family tax bill. The pension income splitting rules allow you to allocate certain types of pension income to your lower income spouse so the income is taxed in their hands at their lower marginal tax rate. By splitting income you may also avoid the Old Age Security (OAS) clawback or the reduction of other income-tested government benefits.
- If you or your spouse received eligible pension income, you may be eligible for a federal pension income tax credit of up to $2,000.

Other Considerations

- There are several credits and deductions that could potentially reduce your tax bill. Speak to you qualified tax advisor to ensure you are claiming all the credits and deductions you are entitled to.
- Issuers such as income trusts and mutual funds tend to issue tax slips later than most other investments. You may want to delay filing your return until closer to your tax filing deadline to ensure you have received all of the information you need to file a complete return.
- After filing your income tax return, be sure to keep the supporting documents in a safe place. Generally, you should keep these documents for at least six years after the end of the tax year to which the documents relate.

Your 2018 Financial "To Do" List

As you enter in to the New Year it is customary to make yourself some New Year's resolutions. We encourage you to take some time this year to do some financial resolutions and make sure that the following 5 financial "to do's" are taken care of this 2018.

1) RSP contributions
The RSP contribution deadline for your 2017 tax return is March 1, 2018. If you haven't taken care of your contribution yet, please contact us so that we can make sure that your contribution is processed in time. Instead of worrying about the deadline each year please speak to us about setting up an automatic monthly contribution for 2018.

2) TFSA contributions
As of January 1st you will be provided with an additional $5,500 of TFSA contribution room. This brings the maximum contribution limit to $57,500 if you have not taken full advantage of the tax free program. We encourage you to take advantage of your increased contribution limit early in the year in order to maximize your tax savings for 2018.

3) Spousal loan annual interest payments
To ensure that your active spousal loan strategy continues to meet the taxation requirements to split income with your spouse, your spouse must make the annual interest payment owed to you on the spousal loan by January 30th, 2018. If the annual interest payment is not made by January 30, any income and capital gains earned on the borrowed funds will be attributed back to you for 2017 and every subsequent year that the loan is in place.

Please feel free to contact us to discuss the potential tax benefits that a spousal loan may be able to offer!

4) Review of your Will/POA
Every year that passes, we tend to see life changes; both big and small. What better time to complete a review of your Will and Power of Attorney to ensure that your documents are set up appropriately?

Or, if you do not have a current Will and Power of Attorney, it is essential that you make time to complete this vital planning. We will be happy to provide contact information for a local trusted lawyer who can assist you with these preparations.

5) Complete a portfolio review
It is important that you take the opportunity to meet with us for your regular portfolio review. Due to the strength of the equity markets in 2017 most client portfolios have seen a slight increase to the percentage of funds invested in stock. In order to maintain the appropriate level of risk, a portfolio review can help determine if we need to shift a small percentage of your investments to a more conservative approach.

UPCOMING EVENTS

Understanding Your Pension Options
January 17th
7:00PM – 9:00PM
RBC Dominion Securities
17 King Street West, 3rd Floor
Oshawa, Ontario

Understanding Your Fees: Are You Paying Too Much?
January 31st
7:00PM – 9:00PM
RBC Dominion Securities
17 King Street East, 3rd Floor
Oshawa, Ontario

Fraud Awareness & Prevention
February 7th
7:00PM – 9:00PM
Oshawa Golf & Curling Club
160 Alexandra Street
Oshawa, Ontario

Please RSVP to Paula Austin at paula.austin@rbc.com or 905-434-6611.

Seating is limited and we encourage you to respond early.

New Kids On The Blockchain

Please see some highlights from a focus article included in the Global Insight 2018 Outlook. If you would like to read the full article, please feel free to contact us for a copy or access it through our team website (www.michiewealth.com) under the "Client Resources" section.

Crypto creep?

Looking back at 2017, cryptocurrencies stole the headlines, with Bitcoin enjoying a spectacular sixfold increase in value. Despite this interest, we surmise that cryptocurrencies are unlikely to replace fiat, or traditional, money. However, the technology which underpins cryptocurrencies, blockchain, could have wide-ranging implications in many industries and for investors in the medium-to-long term.

Despite this year's hype, Eric Lascelles, RBC Global Asset Management's chief economist, believes cryptocurrencies are unlikely to replace traditional money in the short and medium term for several reasons. Firstly, they are not a store of value as are traditional currencies. After all, we hold our countries' currencies because we expect to trade them for a future good or service in an economy backed by a legal, political, and economic system. Bitcoins are not created by a central bank, but by a network and complex algorithms, or computer instructions. Secondly, there is no legal recourse as cryptocurrency ownership is anonymous – hence, no one to pursue in case of a theft, or hack. Finally, their value is both "unstable and widely unpredictable".

In the long term, full replacement of traditional currencies is unlikely, in his opinion, though he acknowledges this picture is somewhat hazy. The biggest advantage of cryptocurrencies at the moment is the ability to transfer money not only cheaply, as it is a peer-to-peer system which cuts out the middle man, but also without being detected. In effect they can be used to evade the supervision of unlawful money transfers.

Lascelles surmises that governments are likely to intervene. China banned Bitcoin earlier in 2017, as it was being used to elude capital controls and transfers out of the country. Even in countries without capital controls, governments are likely to want to pin down fund flows to track taxation and potential criminal activities. Because cryptocurrencies do not enable this, Lascelles expects governments are likely to regulate them ever more tightly if their popularity grows.

Chain reaction

While there are hurdles to cryptocurrencies replacing traditional money, the underlying technology, blockchain, seems to hold considerable promise and could redefine several industries' rules of operation, in particular those heavy with recordkeeping at their core.

Blockchain is in effect a giant database, or ledger, that can maintain an ever growing list of data. It is a distributed ledger; it is not kept nor altered in a centralised manner by an institution. All data "blocks" are encrypted – they cannot be changed or erased without leaving a record of previous blocks thanks to proprietary algorithms designed to protect data. As such, the data records seem to be manipulation-proof and much more difficult to hack.

Blockchain's decentralised nature is considered less prone to errors, in effect making many aspects of recordkeeping simpler and safer, while dramatically reducing paperwork and costs. It is a potential solution for hard-to-maintain complex databases.

Unlocking the chain

Publically listed pure plays on blockchain providers are few and far between and do not tend to have an established track record, which make them a risky proposition. Blockchain leaders within the established business models make the most sense, though the technology is unlikely to influence group earnings at this stage.

Investors wanting exposure to this promising technology could also look at software consultants, tasked with testing or integrating the new technology.

It is still early days to gauge the impact of the new technology. More testing must be done as the security of blockchain might yet prove fallible in the hands of hackers in the future. Moreover, the scalability of the technology has yet to be tested and, as it sucks up a lot of energy as a computer-based solution, its proliferation could yet be limited by the current capacity of the grid. Yet, its potential makes it a technology well worth watching closely, which we intend to do.

MARKET WATCH

Equity Indices	YTD (%)	52 Week (%)
S&P/TSX	6.0%	6.0%
S&P 500	19.4%	19.4%
Dow Jones	25.1%	25.1%
Euro Stoxx 50	6.5%	6.5%
FTSE 100	7.6%	7.6%
DAX	12.5%	12.5%
NASDAQ	28.2%	28.2%
Nikkei 225	19.1%	19.1%
Shanghai Stock Exchange	6.6%	6.6%
Hang Seng	36.0%	36.0%
MCSI World	20.1%	20.1%

**Performance as of December 29, 2017*

Income From Joint Accounts Held Between Spouses

It is often assumed that spouses can split income earned in a joint account equally or in whatever way minimizes their overall tax bill. This is not the case. In general, each spouse must report their share of income earned in a joint account in accordance with the proportion of funds they have each contributed to the account. This article looks at income tax rules that apply to the reporting of income from a joint account with the right of survivorship. Knowing the rules can avoid potential problems and penalties.

Proportionate tax reporting
Income earned in a joint account held between spouses must be reported based on how much each spouse contributed to the account, or "attribution rules". The attribution rules are designed to prevent certain income splitting between non-arm's length persons, including spouses. Under these rules, income earned from property transferred (including gifts or sales) or loaned to a spouse, is considered to be income of the spouse making the transfer, not the spouse receiving it, with a few exceptions.

Tax slip reporting
Although a T5 or T3 tax slip may be issued for your joint account in your sole name with your Social Insurance Number (SIN), it does not automatically imply that the CRA is expecting you to report all the income for tax purposes. The CRS only requires on SIN to be included on the tax slip so only the primary account holder's SIN number is displayed.

Capital gains and capital losses
If an asset is sold within a joint account, the joint account owners must report their portion of the gain or loss. The reason behind the sale does not affect the reporting requirements. The sale of this asset triggers a capital gain which cannot be solely claimed by one spouse simply because they withdrew their proportionate share of the account. Instead, the capital gain must be split between you and your spouse according to the proportion of funds each has contributed to the joint account.

Withdrawals from the joint account
If one of the joint account holders withdraws fund from the joint account, it is important to factor this withdrawal in determining the proportionate tax reporting going forward. The proportion of future income that should be reported by each spouse should be recalculated if either party makes a withdrawal from the account.

Conclusion
Joint accounts cannot be used by you and your spouse to achieve income splitting. For example, you and your spouse cannot arbitrarily split the income 50% each, solely basis that it is a "joint" account. You also cannot choose a ratio to report on your respective tax returns each year to maximize your savings. Each spouse must report their share of income earned in a joint account in accordance with the proportion of funds they have contributed to the account. Consult with a qualified tax advisor if you have any further questions on the tax reporting requirements for joint accounts held by spouses.