RBC Dominion Securities Inc.

Cooper
Wealth Management

Wealth Management
Dominion Securities

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"It is a capital mistake to theorize before you have all the evidence. It biases the judgement. It is a capital mistake to theorize before one has data. Insensibly, one begins to twist facts to suit theories, instead of theories to suit facts."
– Sherlock Holmes, A Study in Scarlet"

# Theories + Facts

Sherlock Holmes usually had all the answers because he could see all the evidence, all the data, to determine the proper outcome. As investors, we do not have that luxury because each day produces new data that can change the investment landscape completely. However, rarely have we seen so many investment theories bent and twisted to try to explain today's market. Let's look at a few examples.

**Theory:** U.S. unemployment at 4.7% has to lead to higher wages, therefore higher inflation.

**Fact:** Inflation has only recently topped the 2% mark, with wage inflation contributing 2.8%. There are certainly trends to watch but the key figure remains the labour participation rate which still stands at a relatively low 63%.

**Theory:** President Trump's proposed infrastructure spending of $1 trillion will help bump U.S. GDP towards 3% growth.

**Fact:** The proposed spending is over 10 years, meaning GDP will only get a one-time boost of $100 billion, assuming the Trump administration can even line up all the required projects in an orderly fashion. In fact, future GDP could have a small drop if future projects fail to materialize. $100 billion versus the current rise of U.S. GDP is not enough to make a material difference and if the Obama administration's doubling of the U.S. debt in eight years taught us anything, government spending is not a cure-all for the economy.

**Theory:** U.S. interest rates have room to move higher based on the strength of the US economy.

**Fact:** While there is likely some wiggle room to raise rates slightly from the ultra-accommodative low levels of the 2008 financial crisis, there are key factors such as the U.S. dollar and investor liquidity which we believe will keep rate hikes in check. First, if the U.S. dollar continues to show strength, which it would if the proposed hikes occur, then the profitability of U.S. multinationals would be dragged lower, hurting the U.S. economy.Second, there is currently approximately $8 trillion in U.S. bank accounts, according to RBC Capital Markets. Higher rates would bring this money off the sidelines and attract buying of U.S. treasuries, keeping downward pressure on yields. This, coupled with continued strong international buying should move to keep U.S. yields on hold around current levels.

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Theories + Facts ...
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## The investment case

Taking away the theories, we are left with some encouraging facts. At 1.5%-2% GDP growth, the U.S. economy continues to move forward, if at an unremarkable rate. This creates a solid backdrop for U.S. companies, who have largely managed the low-rate environment well. Proposed deregulation and tax cuts only brighten this picture and we continue to maintain our 30-35% weight in the U.S.

Low interest rates in both Canada and the US continue to support being weighted towards equities. For fixed income investors, we continue to maintain our 25% short duration government bond/ 75% preferred share barbell approach for maximum tax efficiency and cash flow. For equity investors, we continue to focus on tax efficient cash flow generation through our covered call program.

Overall, the equity investment case remains compelling, with strong performance from the Canadian banks and a stabilizing oil market that is beginning to supply increased profitability despite the continued overhang of inventory.

As always, if you have any questions, or would like to set up a meeting or receive/update your financial plan, we look forward to hearing from you.

Yours Truly,

Walter Harmidarow & the Cooper Wealth Management team at RBC Dominion Securities

# 2017 Federal Budget

March 22, 2017

A summary of the key tax measures that may have a direct impact on you The Liberal government's Federal Minister of Finance, Bill Morneau, delivered the 2017 federal budget on March 22, 2017. The budget contains numerous tax measures, many of which are not significant in nature. The budget does not propose a change to the current capital gains inclusion rate of 50%. Prior to implementing any strategies, individuals should consult with a qualified tax advisor, legal professional or other applicable professional. While it has been the long-standing practice of the 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 the 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.

## Personal tax changes

### Tax credit changes

- **Medical expense credit** – The budget proposes to clarify the application of the medical expense tax credit for individuals who require medical intervention in order to conceive a child. This measure will apply to the 2017 and subsequent tax years. An individual will also be entitled to elect for this measure to apply for any of the immediately preceding ten taxation years on their personal tax return.
- **First-time donor's credit** – The budget confirms that the first-time donor's credit will expire, as planned, after 2017.
- **Tuition credit** – The budget proposes to make the tuition tax credit available for fees paid to a university, college or other post-secondary institution in Canada for occupational skills courses that are not at the postsecondary level. For example, this may include training in a second language. The credit will be available only where the course is taken for the purpose of providing the individual with skills (or improving the individual's skills) in an occupation and the individual has reached the age of 16 before the end of the year. This measure will apply to eligible tuition fees for courses taken after 2016. The budget also proposes the individual in the circumstances described above will meet the definition of a "qualifying student", for the purposes of the tax exemption for scholarship and bursary income, if they otherwise meet the conditions to be a "qualifying student". This measure will apply to the 2017 and subsequent taxation years.

- **Canada Caregiver Credit –** The budget proposes to replace the infirm dependant credit, the caregiver credit, and the family caregiver tax credit with a new Canada Caregiver Credit for 2017 and subsequent RBC Wealth Management | 3 years. The new credit amount (to be indexed annually to inflation) will be $6,883 in respect of infirm dependants who are parents/grandparents, brothers/ sisters, aunts/uncles, nieces/nephews, or adult children of the caregiver or of the caregiver's spouse or common-law partner, or $2,150 in respect of an infirm dependant spouse or common-law partner in respect of whom the caregiver claims the spouse or common-law amount, an infirm dependant for whom the caregiver claims an eligible dependant credit, or an infirm child who is under the age of 18 years at the end of the tax year. The new credit will be income-tested and reduced dollar-for-dollar when the dependant's net income rises above $16,163 (in 2017, to be indexed annually). The dependant will not be required to live with the caregiver in order for the caregiver to claim the new credit. Special rules apply in cases where an individual claims a spouse or common-law partner amount or an eligible dependant amount in respect of an infirm family member. In addition, the Canada Caregiver Credit will no longer be available in respect of noninfirm seniors who reside with their adult children.

## Bussiness tax changes

### Tax planning using private corporations

The budget identifies the following strategies involving private corporations where the federal Government feels that high-income earners have gained unfair tax advantages:

- **Dividend sprinkling –** this strategy involves directing income (e.g., dividends or capital gains) that would otherwise be taxed in the hands of an individual at a high tax rate to family members who are subject to a lower tax rate or who may not be taxable at all.
- **Holding a passive investment portfolio inside a private corporation –** this strategy may be financially advantageous for owners of private corporations compared to otherwise similar investors. This is due to the fact that corporate income tax rates are generally much lower than personal tax rates allowing for the higher accumulation of earnings that can be invested in a passive portfolio.
- **Converting a private corporation's regular income into capital gains –** Income is normally paid out of a private corporation in the form of salary or dividends to business owners, which is subject to tax at the recipient's personal tax rate. In contrast, only 50% of capital gains are included in income, resulting in a significantly lower effective tax rate on income that is converted from dividends or salary to capital gains. The Government is further reviewing the use of these tax planning strategies and intends to release a paper in the coming months setting out the nature of these issues in more detail as well as proposed policy responses. Billed-basis accounting Certain designated professions (i.e. accountants, dentists, lawyers, medical doctors, veterinarians and chiropractors) may elect to exclude the value of work in progress (WIP) in computing their income. This election effectively allows income to be recognized when the work is billed. Billed-basis accounting enables taxpayers to defer tax by permitting the costs associated with WIP to be expensed without the matching inclusion of the associated revenues. The budget proposes to eliminate the ability for designated professionals to elect to use billed-basis accounting. This measure will apply to taxation years that begin on or after March 22, 2017. To reduce the immediate tax impact, a transitional period will be provided to phase in the inclusion of WIP into income. Meaning of factual control The Income Tax Act (Act) recognizes two forms of control of a corporation, de jure (legal) and de facto (factual) control. Determining control is important to ensure that certain corporate tax preferences are not accessed inappropriately. For example, in addition to legal RBC Wealth Management | 5 control, factual control is used to determine whether two or more Canadian-controlled private corporations are "associated". Associated corporations, among other things, must share the $500,000 federal small business deduction limit which provides a lower corporate tax rate on active business income. Legal control of a corporation generally entails the right to elect the majority of the board of directors of the corporation. Factual control of a corporation exists where a person has direct or indirect influence, where if exercised, the person would have control over the corporation. In order to determine if factual control exists, all of the relevant factors must be considered. A recent court decision held that in order for a factor to be considered when determining whether factual control exists, it must include a legally enforceable right and ability to effect a change to the board of directors or its power, or to exercise influence over the shareholder or shareholders who have that right and ability. The budget proposes to amend the Act to clarify that factors that may be considered in determining whether factual control exists do not have to include a legally enforceable right and ability to effect a change to the board of directors or its power. This measure will apply in respect of taxation years that begin on or after March 22, 2017.

**For the full budget summary please visit our website under Client Resources.**

# Did you know?

DS Online allows you to easily keep track of the progress you're making towards your financial goals from any computer with a secure internet connection.

### Key features and benefits of DS Online

- **RBC® Mobile1 App:** If you have an iPhone or iPod touch, you can download the free4 RBC Mobile app, which lets you view and track your investment accounts right from your phone.
- **e-Documents:** Access your documents (such as statements, trade confirmations and prospectuses) at any time. With our 7-year archive you'll be able to access your documents through DS Online at your convenience.
- **Detailed account information:** View your account information, transaction history, investment news and research 24 hours a day, seven days a week.
- **Real-time fund transfers:** You can transfer funds from your RBC Royal Bank accounts to your RBC Dominion Securities accounts in real-time (during regular business hours).

# RBC first Canadian bank to launch Interac e-Transfer® using Siri

Sending money is now as easy as saying "Hey Siri, send Pat $20" as Royal Bank of Canada ("RBC") launches money transfers with Siri for its personal banking clients. This innovative money transfer solution is now available through an update to the RBC Mobile app for iPhone and iPad. Building on its market-leading, free person-to-person money transfer services for chequing account clients launched last year, RBC continues to develop simple and innovative ways for clients to make payments and bank with their mobile devices.

# Thank you

It has been our pleasure to help you with your investment needs over the years, and we'd like to take this opportunity to personally thank you for your support.

We especially want to thank those of you who have been kind enough to refer your friends and family to us. Our business is still growing and we continue to welcome the opportunity to meet new people.

Once again, thank you for your support and we look forward to serving your future investment needs.

# MyCRA

My Account is an online service from the CRA that allows you to track your refund, view or change your return, check your benefit and credit payments, view your RRSP limit, set up direct deposit, receive online mail, and so much more.

If you are registered with My Account, you can also use Auto-fill my return when you file online using certified software.

You can even sign in using your RBC Banking login information for secure and easy access.

http://www.cra-arc.gc.ca/myaccount/

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