Wealth Management
Dominion Securities

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Around the world in 80 seconds

Canada

The economy continued to struggle through the first half of the year, eking out only tepid growth while the employment picture continued to deteriorate. Canadian households are showing increasing signs of financial stress, as interest rate increases have led to sharply higher borrowing costs, especially for homeowners, and as higher prices from the surge in inflation over the last few years take their toll on finances and spending power. In light of falling inflation and anemic growth, the Bank of Canada cut their trend-setting overnight rate by another 0.25%, helping lift some of the gloom. Canadian stocks have continued their upward grind, albeit with only modest gains year-to-date for the S&P/TSX Composite relative to its U.S. peer the S&P 500 Index, as investors struggled to assess the path forward for corporate earnings for the remainder of 2024 and beyond.

United States

The world's largest economy continues to overcome the headwinds of subdued global growth and high interest rates, defying expectations to post increasingly moderating but nonetheless impressive growth through the first half of the year. While inflation has remained sticky, prompting the U.S. Federal Reserve (Fed) to remain on the sidelines so far this year, more recent numbers are indicating that it may be finally settling into the Fed's target band of 1% to 3%. Despite the moderation, with a presidential election looming in November and the Fed's history of not wanting to be a factor in it, it remains increasingly likely that the central bank may wait until September's or even November's post-election rate-setting meeting to begin cutting rates. In the meantime, U.S. equity markets continued to scale new highs through the first half of the year, driven largely by U.S. mega-tech stocks..

Europe

After a challenging 2023, Europe is growing again, if only tepidly, buoyed by consumer spending, job growth and tourism. The region has at long last seen a significant and sustained lessening of price pressures, after suffering multi-decade highs in inflation through 2022 and 2023. The European Central Bank delivered what is expected to be the first of several cuts to its trend-setting deposit rate, raising hopes that the region will achieve its projected GDP growth of 1% for 2024. However, an alarming increase in political gains by far-right parties in recent regional elections has raised worries amongst centrist governments, with France's President deciding to call snap parliamentary elections to challenge the surge and having to settle for mixed and generally unfavourable results. The political uncertainty has caused the region's bond yields to spike, increasing worries that borrowing rates will remain higher for longer than expected..

Emerging markets

While EM nations have experienced some marginal relief to their macroeconomic conditions in 2024 as the outlook continues to improve regarding U.S. interest rates and yields, the revised view of "higher for longer" continues to weigh on these countries. Higher U.S. rates mean little wriggle room for EM countries to lower their own interest rates, as they risk further devaluation against the mighty "greenback". And, with much of EM debt priced in U.S. dollars, debt markets have been battered. China continues to experience lower-than-trend growth, as it struggles with increasingly restrictive government policies and a ravaged real estate market. Despite these challenges, solid growth is expected from EM leaders Mexico, India and Brazil, while Russia, mired in a costly war with Ukraine, is expected to struggle for the remainder of 2024 and beyond.

To learn more, please ask us for the latest issue of *Global Insight*.

RBC Dominion Securities Inc.

Gain changer

The federal government's new capital gains inclusion rates mean that, in certain circumstances, Canadians will now be paying more tax on their gains from capital asset transactions. For many investors, this will be a game – and net gain – changer. Here is a quick overview of the key changes, some scenarios demonstrating how the changes might impact various types of transactions and taxpayers, and strategies to consider to help minimize the impact.

Capital changes – overview of capital gains inclusion rate changes

Prior to June 25, 2024:

Individuals, trusts and corporations that realized capital gains during the tax year – whether through holdings (stocks, bonds, mutual funds) in non-registered investment accounts, or secondary properties, such as cottages and investment properties – the capital gains tax inclusion rate was 50%.This means that for every $1.00 in net capital gains you generate, you must include 50% - or $0.50 - of your gain in your taxable income, while the other $0.50 is untaxed. This differs in the way, for example, employment income is taxed, for which 100% of every $1.00 of earnings is treated as income and is fully taxable.

Starting June 25, 2024:

Individuals:

- **Net capital gains greater than $250,000 in a year:** Individuals who realize more than $250,000 in net capital gains in a year – whether through holdings (stocks, bonds, mutual funds) in non-registered investment accounts, or secondary properties, such as cottages and investment properties, the net capital gains tax inclusion rate is now 66.6% (or 2/3rds).
- **Net capital gains up to $250,000 in a year:** For individuals with gains up to $250,000, the net capital gains tax inclusion rate remains at 50%.

Trusts and corporations:

- **For all net capital gains reported by trusts and corporations** (regardless of whether it is an operating, holding or professional corporation), the net capital gains tax inclusion rate is now 66.6% (or 2/3rds).

Note: The 50% inclusion rate on net capital gains up to $250,000 is not available to corporations and trusts after June 24, 2024.

What's not changing?

- For individuals with net capital gains under $250,000, the net capital gains tax inclusion rate will remain at 50%.
- If you hold investments in a Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF) or other registered plans, the new tax rules for capital gains do not affect you.
- The changes do not impact your primary residence capital gains exclusion – this remains in place, and there are no plans to change this at the present time.

Easing the pain – strategies to reduce the impact of the new inclusion rates

Few if any individual taxpayers who are disposing of capital assets after June 24, 2024 and generating net capital gains above the annual $250,000 threshold will be able to avoid paying more on their tax bill because of the increase in the capital gains inclusion rates – and the impact will clearly be felt for trusts and corporations.

To lessen the blow, here are a few strategies to consider and discuss with your Investment Advisor and tax advisors, if applicable and relevant to your unique circumstances:

- **Realize capital gains under $250,000 threshold** – If you have a portfolio of investments with large, accrued gains, consider disposing of your investments slowly over time to ensure you keep your capital gains realized below the $250,000 annual threshold.
- **Charitable donations** – There's a tax incentive for those who donate certain publicly traded securities. In-kind donations of these securities made to a qualified donee are entitled to an inclusion rate of zero. As such, if you have appreciated securities, you may wish to consider donating these securities to a charity instead.
- **Maximize the available room in your registered accounts** – As income earned in registered accounts such as

Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs) or Registered Education Savings Plans (RESPs) are not subject to tax, ensure you've maximized your contributions to these accounts, as appropriate.

- **Consider gifts to family members** – Consider gifting amounts to family members where they have not yet maximized their contribution amounts to their own registered accounts. For example, you may gift funds to your spouse or adult children and grandchildren and have them contribute those funds to their own TFSA. Normally, if you gift funds to your spouse, the attribution rules apply so that all the income earned, and capital gains realized on those funds, will be attributed back to you and taxed in your hands. However, there's an exception for TFSAs and the attribution rules will not apply to income earned and capital gains generated within these accounts that's derived from such contributions.
- **Maximize future income splitting** – If you have a spouse who earns less income than you or other family members with little to no income, you may want to consider implementing an income splitting strategy. Income splitting shifts income that would otherwise be taxed in your hands at a high marginal tax rate to your lower-income spouse, children, or other family members to take advantage of their lower marginal tax rates.
- **Split the bill** – If an asset is held jointly by two individuals (i.e., spouses) and the asset is sold, the $250,000 threshold applies to each individual. So, assuming attribution rules do not apply, when a jointly held asset is sold, each individual would recognize their proportionate gain or loss on the sale. For example, if a couple owns an asset jointly and equally, and they sell the property realizing a gain of $500,000, $250,000 will be taxed in one spouse's return at 50%, and the other $250,000 will be taxed on the other spouse's return at 50% (assuming there are no other capital gains realized in the year).

Caveat venditor (seller beware) – don't turn a gain into a loss

Please keep in mind that each individual, corporation and trust is unique and must consider their own circumstances to best manage the new, higher inclusion rates. Importantly, and again, please ensure that you speak to your Investment Advisor and/or your tax advisor first before taking any action that may result in a capital gain be realized – or deemed to have been realized for tax purposes – as no one wants to get caught in today's larger inclusion net if it isn't necessary.

Gold, silver or bronze – What quality of retirement is your plan leading you to?

Achieving a successful retirement is about more than reaching the podium of financial security that enables you to make this important life change. Your quality of life in retirement will also have a great deal to do with how you live your life and why. Successfully transitioning to and living through the retirement of your dreams is all about preparation and planning. Here are five questions to consider to help put the "gold" in your "golden years".

Building and drawing on your "pot of gold"

Most aspiring retirees tend to focus on the financial aspects of retirement, which is certainly a very important part of a successful retirement plan. Government support programs – like Old Age Security (OAS) and the Canada Pension Plan (or the Quebec Pension Plan) – are in place to help most Canadians meet at least some of their new life-stage cashflow needs. Private pension plans are also an important source of income for many, although they have become rarer over the last few decades. But even with these programs, many Canadians still need to consider how they will fund their retirements.

Those who have planned, saved, invested, and grown their savings through their investment portfolios over time, while taking advantage of the powerful compounding and tax benefits of government-sponsored savings accounts like Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs), tend to be better prepared and positioned to see their retirement financial goals achieved.

Importantly, working with an advisor can help ensure that you build a realistic and personalized plan that reflects your circumstances and unique goals, while managing your risk and thoughtfully building your wealth over time. Starting early and using the power of compounding, while protecting your assets from unnecessary taxation, are just some of the ways that a wealth plan can help you maximize your savings and hard work to support your golden years.

Finding your path in retirement

However, often overlooked in the retirement planning process is the importance of one's quality of life. According to a 2021 report from RBC Wealth Management, few retirees find that their retirement happiness or satisfaction is predicated on their financial circumstances. Most retirees find they have enough or even more than enough income to meet their needs, but instead have a hard time making the shift from working to not working, and from saving to spending their savings. Often, what they thought in pre-retirement were going to be their biggest worries were quite different after retiring.

Reaching the retirement podium is about planning and preparation

Planning for retirement can start at any time. Here are five questions to ask yourself as you plan and prepare for your desired retirement lifestyle:

1. **Do I have a retirement plan in place?** If not, it's helpful to remember the adage "The difference between a dream and a goal is a plan." If your answer is yes, great – be sure to revisit it frequently and discuss it with your advisor regularly to help you remain on track to achieving your goals. Does your plan:

    - Address how much you need to live on in retirement?
    - Maximize tax efficiency?
    - Work to protect you against inflation over time?
    - Provide flexibility and resiliency in the face of unexpected expenses, replacements (e.g., car, home repairs) and/or health issues?
    - Generate sufficient cashflow to meet your needs when you need it?

2. **What will be my focus in retirement?** Many retirees imagine that they will travel or play golf all day, every day. The reality can be quite different, and as retirement can be a very long life stage, one's pastimes can change significantly – especially depending on one's health. Consider incorporating other focuses, such as family, exercise and health, charity, community involvement, hobbies and passions, or even work, as one's purpose in life is critically important in determining your quality of life.

3. **Do I plan to stop working entirely in retirement?** Many retirees decide to go back to work, or to work part time. It's often not for the money, but rather to have a purpose and to remain socialized. Do you have skills that you can transfer into retirement? Where and how you live will often determine what kind of work you're focused on, so that might be a consideration when deciding where to reside in retirement (i.e., urban vs. rural, large city vs. small town).

4. **Is aging in place my happy space?** Many retirees begin their new life chapter imagining that they will remain in their present home, or that the decision to leave will be theirs alone when the time comes. Life has a way of throwing curve balls, so thinking ahead to what might happen as health or financial circumstances change is important. Proximity to health care or social services can also be a consideration, as can increasing costs to maintaining a residence.

5. **What is my legacy?** It's important at any point in life to ensure you have your estate organized, especially a Will and Powers of Attorney for financial and healthcare decisions. Making sure your loved ones and/or healthcare providers know your wishes regarding your care is an important part of how you live out the latter part of your life. Considering your legacy – what's important to you to leave behind for your family or charity – is also an important factor in knowing you have a plan in place and can enjoy your remaining years with peace of mind.

Reaching for gold – we can help

Spending time today to help ensure your tomorrow is what you want it to be is a big part of successfully achieving your goals. As is having wealth and retirement plans that properly capture both your financial and lifestyle needs. We've got the expertise and resources to help you reach the retirement lifestyle you have worked hard to achieve. Talk to us today.

Wealth transfer: Five tips to help avoid family conflict

You can preserve family harmony and your wishes for your estate with careful planning and open conversations.

After spending their lives building wealth, most parents hope their legacy will provide their heirs security and enjoyment—not family strife. Unfortunately, when it comes to wealth transfer, it doesn't always work out that way—families may say they all get along great, but finances have a way of creating strife during heightened emotions.

If you want to preserve relationships among family members after you pass away, while also making sure your estate will be managed according to your wishes, consider these five tips.

1. Recognize underlying family conflicts

Much of the emotional turmoil that professionals see while handling estates comes down to long-simmering conflicts that boil over.

If you know this kind of resentment exists, deal with it now and build in safeguards to minimize it when you're not around.

2. Introduce family members to your advisors

It's helpful for your loved ones to have relationships with your trusted network of advisors, including financial advisors, lawyers and accountants. Make introductions and explain why you have confidence in your team.

That group should have up-to-date versions of your estate plan and legal documents and instructions on how to contact your loved ones after you pass away.

It's also important to leave clear instructions for your relatives about what documents exist and where to find them. Too often, people spend weeks searching for their parents' important files.

3. Clearly communicate specific wishes

Many disagreements revolve around one beneficiary who wants to sell the family home and another who wants to keep it in the family. Make clear what should be done with your major assets, including property[1].

Personal items that hold sentimental or historical value may also cause conflict. One family member could claim they've been "promised" something, but the estate documents do not have clear instructions.

Talk to your family now about what items they would like to have—and avoid the possibility of a future argument.

Take pictures of special or meaningful objects—such as jewelry, heirlooms or furniture—and list who should inherit them, either in your Will or in an addendum. Making those wishes known in writing helps eliminate room for misinterpretation.

4. Appoint an objective executor

Many may think administrating an estate is a straightforward task and often select their oldest child or a close friend as their executor[2] out of tradition. Few appreciate the proper settlement of an estate is critical and it is far more important to have someone in charge who has the time, health, patience and objectivity to ensure accurate record keeping and timely administration than doing what traditionally was done.

For this reason, choosing a professional, such as a corporate executor, can be a smart decision.

5. Hold a family meeting

The last people to find out the details of the estate plan are often the beneficiaries—not an ideal situation.

To ensure there are no surprises, a family meeting can help smooth the future process[3] and explain your wishes to beneficiaries.

If you're leaving a donation to charity[4], for instance, your heirs could be confused or resentful if the first they hear of it is after your death. But if you explain in advance that the charitable gift is your heart's desire, they are more likely to appreciate the gesture.

You could also take the family meeting as an opportunity to invite your financial advisor. By helping to conduct the meeting, your financial advisor gets to meet your beneficiaries and can help take emotions out of the conversation.

You can't plan for every single family conflict that may arise after you're gone. But by taking the time to explain your plans in advance, you may help avoid future conflict and preserve family harmony.

This article was originally published to the U.S. edition of our website[5].

[1] https://www.rbcwealthmanagement.com/en-ca/insights/no-asset-in-your-estate-can-be-as-emotionally-charged-as-the-family-cottage

[2] https://www.rbcwealthmanagement.com/en-ca/insights/are-you-ready-to-be-an-executor

[3] https://www.rbcwealthmanagement.com/en-ca/insights/a-guide-to-family-meetings-five-tips-to-consider

[4] https://www.rbcwealthmanagement.com/en-ca/insights/the-value-of-having-a-strategic-charitable-giving-plan-in-place

[5] https://www.rbcwealthmanagement.com/en-us/insights/5-estate-planning-tips-to-help-avoid-sibling-rivalry