INVESTMENT
FOCUS

Personal Newsletter from Michael Carter of RBC Dominion Securities Inc.

Summer 2016

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Keep Time on Your Side

It is the summer, the season when many of us enjoy some well-deserved down time. As you relax in the sun, don't forget that time can be one of your greatest allies. And, remember that one of the greatest enemies in wealth creation can be procrastination.

It's no wonder that those close to retirement often wish that they could turn back time. After all, the combination of time and compounded growth can work wonders on an investment. An investor starting at age 25 who invests $500 per month will have yielded over $1 million by the age of 70 (at an annual compounded rate of 5 percent, assuming no taxes). Starting later, at the age of 45, to achieve a similar amount by 70 requires much more — around $1,670 per month. Of course, most of us weren't thinking about retirement at age 25, as there were many other competing financial demands at the time. Yet, the significant difference in the amount needed just 20 years later to achieve the same outcome shows the positive impact of time and the potential cost associated with procrastination.

Even during times of market volatility, procrastination can lead to missed opportunity. It is natural to fear what the short term may bring to the financial markets, especially when the prevailing news is negative. Yet, the danger is that fear can lead to inaction. Volatility may present great buying opportunities, but opportunity does not wait for those who procrastinate.

The perils of procrastination can extend to other areas of wealth management. In many cases, estate planning activities are put off until 'tomorrow' because people may feel uncomfortable addressing the topic of death. But with the passage of time, tomorrow quickly becomes yesterday and tasks such as creating and updating power of attorney documents or wills can easily be forgotten. Take the recent death of pop icon Prince, who is believed to have died without a will. Undoubtedly, there will be conflict over who is entitled to parts of his estate. Even worse, surviving loved ones have been left to deal with this burden during an already difficult time.

Often, the hardest part is getting started. We are here to support you, or even friends and family, with the tasks that might need a jump-start, whether they involve retirement planning, investing, estate planning or other wealth planning activities. Do your best to avoid procrastination and make sure to keep time on your side.

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Wealth Management
Dominion Securities

You Asked: Your RRSP Questions Answered

Can I hold a Registered Retirement Savings Plan (RRSP) and a Registered Retirement Income Fund (RRIF) at the same time?

Yes. Investors most commonly choose to transfer funds to an RRIF on a tax-deferred basis once the RRSP needs to be wound down at age 71, but there may be instances before that time where you would want to have both. If you need to generate pension income to take advantage of the federal pension income tax credit, you may wish to open a small RRIF at the age of 65. At the same time, you may wish to continue holding your RRSP until the end of the year in which you turn 71 to capture the ongoing tax deductions from your contributions.

What is the "forgotten" RRSP contribution at age 71?

In the year in which you turn 71 years old, you must wind up your RRSP by December 31. You will not be able to make further contributions after this date. Since RRSP contribution room is based on your previous year's earned income, if you are still working at age 71, you may have created RRSP contribution room for the following year. If you have already contributed the maximum amount for the current year, consider contributing the additional amount at the end of the year. It will be subject to an over-contribution penalty of 1 percent per month (in excess of the lifetime over-contribution amount of $2,000, if unused). However, in January of next year, it will no longer be considered an over-contribution. The penalty will apply for one month (December), but this may be offset by a potential after-tax, longer-term incremental benefit that the extra RRSP contribution may provide, which may have otherwise been overlooked.

If you have a younger spouse/common-law partner, you can make a spousal RRSP contribution by the normal RRSP deadline. If you work past the age of 71, you can continue contributing to the spousal RRSP until the end of the year that the spouse turns 71. (After the age of 71, RRSP information will not be shown on your Notice of Assessment, so please call for assistance.)

Estate Planning

The Benefits of Naming the Estate as Beneficiary

As you think about your estate plan, one important undertaking is naming and updating your beneficiaries. *Note: In Quebec, beneficiary designations on registered accounts (such as RRSPs, RRIFs and Tax-Free Savings Accounts (TFSAs)) are generally not allowed to be made directly in the plan documentation and must be made within the will.*

Often times, individuals may be focused on certain tax implications associated with naming a beneficiary. For example, naming beneficiaries (or successor holders/annuitants) may help to bypass probate tax/estate administrative tax, in provinces where applicable. If no beneficiary is named, assets that would otherwise have passed outside of an estate may be included in the estate and subject to probate.

Although certain tax considerations may be important, they may be only part of the equation. When looking at the bigger picture, naming the estate as the beneficiary may be beneficial under certain circumstances, including the following:

Equalizing the Estate — Naming the estate as a beneficiary may simplify the task of equalizing an estate amongst beneficiaries. For example, if the estate is not named as the beneficiary of an RRSP/RRIF (and passes outside of the estate in provinces other than Quebec) and taxes are due on the value of the RRSP/RRIF, the estate (and the estate's beneficiaries) will be responsible for the taxes, while the

full value of the RRSP/RRIF will pass along to the RRSP/RRIF beneficiary. This may complicate a situation in which the intent is to equalize the after-tax amounts received by all beneficiaries.

Covering Costs of the Estate — Naming the estate as a beneficiary for certain assets, such as life insurance policies, can provide funds to help cover tax liabilities, such as the capital gains tax liability of an appreciated family vacation home, or other costs of the estate.

Maintaining Control — If a beneficiary is not currently financially responsible, you may consider establishing a trust, with the terms established within the will. This may help to protect assets until certain requirements are met.

As you review your beneficiary designations, remember to consider the broader implications of your selections. As always, please seek legal advice as it relates to your particular situation.

Changes Are Coming

Tax Changes as a Result of Budget 2016

The federal budget was tabled at the start of spring. Here are some tax changes* that individuals should be aware of:

What Investors Need to Know

Tax-free switches of classes of shares of a mutual fund corporation will be eliminated. As of October 1, 2016, the exchange of the shares of one class of a mutual fund corporation for another class of shares of the corporation will be considered to be a disposition at fair market value for tax purposes. Currently a tax-deferral benefit is available to investors for these exchanges. If rebalancing is needed, consider doing this before October.

Taxation of linked notes is changing. As of October 1, 2016, any gain realized on the sale of a linked note, such as a principal-protected note, will be treated as ordinary income. Currently, if notes are sold on the secondary market prior to maturity, gains are generally taxed at favourable capital gains rates.

No changes to the tax rules for donations of proceeds from the sale of private company shares and real estate. The federal budget reversed a proposed measure to eliminate the capital gains tax on the sale of appreciated private company shares and real estate if the proceeds were donated to charity.

What Businesses Should Know

Small business tax rates remain flat. The federal small business tax rate for Canadian-controlled private corporations (CCPCs) will remain at 10.5 percent after 2016. It was previously set to decrease to 9 percent by 2019.

Small business deduction limit rules are changing. Technical changes have been made to address concerns about partnership and corporate structures that multiply access to the small business deduction, which allows for lower tax rates on active business income up to $500,000 federally.

Eligible capital property (ECP) rules are changing. Starting in 2017, the ECP regime will be replaced with a new capital cost allowance class, which generally eliminates a tax-deferral opportunity that may arise from the treatment of gains on the sale of ECP as active business income.

Rules for the transfer of life insurance policies have changed. The tax benefits associated with certain transfers of life insurance policies to a corporation have been limited.

Personal Measures That May Affect You

Federal tax rates have changed. For the 2016 tax year, the federal tax rate for taxable income between $45,282 and $90,563 is 20.5 percent (reduced from 22 percent). A new federal tax bracket for taxable income in excess of $200,000 will be taxed at a rate of 33 percent.

Various tax credits and benefits have changed. The Family Tax Cut (an income-splitting tax credit for couples with children) has been eliminated. The Universal Child Care Benefit (UCCB) has been replaced by an income-tested Canada Child Benefit (CCB). The Child Fitness and Arts tax credits are reduced for the 2016 tax year and eliminated thereafter. The Education and Textbook tax credits will be eliminated as of the 2017 tax year.

For more information, please see: budget.gc.ca

*Note: At the time of writing, the federal budget had yet to receive royal assent, although this is not expected to be an issue.

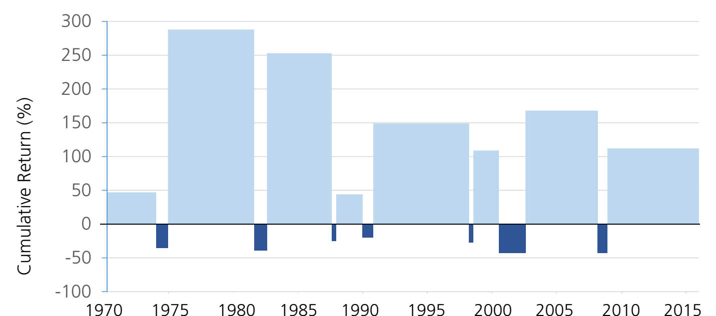
Keeping Perspective: A History of Bulls and Bears

When the market climbs the proverbial "wall of worry", an underlying feeling of uncertainty is often present. Keep in mind that uncertainty is a constant part of the financial markets. While not to be ignored, uncertainty should always be kept in perspective.

It may be helpful to look back at the history of the Canadian equity market to provide some balance. History has shown us that bull markets have been longer and stronger than the bear markets. Focusing on longer-term objectives can play an important role in most portfolios.

As well, in order to take advantage of the wealth-building opportunities of the equity markets, keeping invested remains important. Along the way, there may be volatility, but, as the accompanying chart shows, brighter periods have generally dominated the markets.

S&P/TSX Composite Total Return Index
Bull and Bear Markets: Jan. 1970 to Apr. 2016



Source: TSX Composite Total Return Index, 1/1/1970 to 29/04/2016. Bull/Bear Markets defined as +/-20% change in monthly closing figures.

Bull Markets   Bear Markets

Upcoming Changes to Tax-Exempt Life Insurance

Most Canadian life insurance policies are structured to be exempt policies, meaning that any investment earnings associated with the cash value accumulation in the policy are not subject to annual taxation. Under the Income Tax Act, certain rules, collectively "the exempt test", determine if income within a life insurance policy is considered to be tax exempt. Over time, these rules have not been updated to account for such factors as increased life expectancies and the introduction of new types of insurance policies.

However, as of January 1, 2017, changes will be made to these rules which will impact the amount of money that can accumulate within an exempt life insurance policy on a tax-preferred basis. In general, the maximum tax-exempt savings room for the same policy offered today will be lower, beginning in 2017.

Policies issued prior to January 1, 2017 will be grandfathered under the existing exempt test rules. However, any changes made to these policies after January 1, 2017 may result in a loss of grandfathering privileges. Therefore, if you currently hold life insurance and need to make any changes to these policies, you may wish to consider doing so before the end of 2016.

If you are in need of additional insurance and want to maximize the potential to accumulate tax-exempt income within an insurance policy, there may be tax-sheltering opportunities available through the funding of a tax-exempt insurance policy purchased prior to 2017.

Life insurance coverage can play an important role in your overall wealth and investment plan. Now may be an ideal time to review your life insurance before the changes take place next year. Please let us know if we can help with this.

Summer Brings Fresh Perspectives

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We would be grateful for any such referrals and will, of course, deal with them in the strictest of confidence, as you would expect. Whether it is a fresh opinion on their existing portfolio or advice on a new situation, we're here to help.

Please have them contact us or call our office and we would be happy to follow up with them.

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