Upson's Update

Winter 2020

Market Commentary

We have a constructive bias for equities with new highs forecast for 2020. Ultra-accommodative monetary policies already on the books, some additional fiscal stimulus, and a confident U.S. consumer should keep most developed economies growing moderately. That should produce growth in corporate earnings, dividends and buybacks.

Right alongside our constructive bias is heightened need for caution, though, acknowledging that the late stage of the business cycle carries particular challenges for the economy and the stock market. In our view, GDP growth for the major economies is unlikely to kick into a higher gear that would usher in several successive years of above-average earnings growth. But as long as U.S. recession risks remain in the distance, as shown by our indicators below, we believe portfolios should maintain a Market Weight allocation to equities.

<u>Reminder– 2019 RRSP Contribution deadline</u>

The deadline for you to make a contribution to a Registered Retirement Savings Plan (RRSP) that can be claimed as a 2019 tax deduction is March 2, 2020.

If you don't have sufficient cash on hand to make an RRSP contribution, you can consider making an in-kind contribution of securities from your non-registered account to your RRSP. If the securities are in a gain position, you will realize a capital gain when you make the contribution. If the securities are in a loss position, you may not want to contribute the securities in-kind, as your ability to claim that loss will be denied.

Please also refer to *Naveed's Note* on page 4 for information on the timing of tax document mailings.

-Greg

RBC Wealth Management U.S. economic recession scorecard

Indicator	Status		
Yield curve (10-year to 1-year Treasuries)	–	–	✓
Unemployment claims	✓	–	–
Unemployment rate	✓	–	–
Conference Board Leading Index	✓	–	–
ISM New Orders minus Inventories	–	✓	–
Fed funds rate vs. nominal GDP growth	✓	–	–
	Expansion	Neutral	Recessionary

Source – RBC Wealth Management; economic indicators as noted below

RBC Wealth Management's Global Portfolio Advisory Committee monitors six major economic indicators to gauge recession risks. This table compiles our view of recession risks based on each indicator's current position and recent movement. The chart is an explanation of the indicator and our view of its current status.

Wealth Management Dominion Securities

Special points of interest:

- *The U.S. recession indicators remain largely in the expansion phase, and we continue to maintain a Market Weight in equities.*
- *Now that it's 2020, there are new contribution limits for the year, including an additional $6K of TFSA room.*
- *If either you or your spouse is a high income earner while the other has less income in a year, pension splitting may be an advantageous way to lower your tax bill.*

Inside this issue:

2020 HANDY FINANCIAL PLANNING FACTS

The following is information that we felt is useful for you when assessing your finances in 2020.

TFSA*	
Maximum annual limit limit since inception	$5,000 each year 2009 – 2012 $5,500 each year 2013 – 2014 $10,000 for 2015 $5,500 for 2016 – 2018 $6,000 for 2019 – 2020
Maximum contribution limit since inception	$69,500 from 2009 – 2020, if born in 1991 or earlier and resident of Canada during those years

*You automatically accumulate contribution room each year (starting in 2009) if you were a tax resident of Canada at any time during the year and you were at least 18 years of age at any time during the year.

RRSP / RRIF		
RRSP maximum annual deduction limit	18% of the prior year's earned income to a maximum of: $27,230 for 2020 – deadline March 1, 2021 $26,500 for 2019 – deadline March 2, 2020	
Withholding tax on RRSP withdrawals or payments over the annual minimum for a RRIF	**Amount**	**All provinces except Quebec**
	$0 – $5,000	10%
	$5,001 – $15,000	20%
	Over $15,000	30%

RESP	
Maximum contributions	Lifetime limit of $50,000. No annual limit.
Maximum lifetime Grant limit	$7,200

CANADA PENSION PLAN- maximum amounts	
Retirement benefits at age 65	$1,175.83/ month
Early retirement benefit at age 60 (36% max reduction or 0.6% per month)	$752.53/ month
Deferred retirement benefit at age 70 (42% max increase or 0.7% per month)	$1,669.68/ month

OLD AGE SECURITY (OAS)- maximum benefits (as of Q1)	
Benefits at age 65	$613.53/ month
Deferred benefit at age 70 (36% max increase or 0.6% per month)	$834.40/ month
Clawback rate	$0.15 for every $1 of net income above $79,054; the full OAS is eliminated at a net income of $128,137 as of Q1

GOVERNMENT CONTACT INFORMATION	
CRA general help line for individuals	1-800-959-8281
Phone number for CPP and OAS queries	1-800-277-9914

*The information in this article on pages is derived from RBC Dominion Securities Portfolio Advisory Group's Articles *2019 Tax preparation reminders, Early 2020 tax tips, TFSA quick tips& 2020 handy financial planning facts, all released January 2020.*

PENSION INCOME SPLITTING

Many Canadian families may be able to reduce their total tax bill by having a higher income spouse allocate certain types of retirement income to a spouse who's taxed at a lower rate. This article summarizes these rules, as well as some of the key opportunities that you and your spouse may want to consider as part of your overall retirement income plan.

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 your pension income, you may also avoid the Old Age Security recovery tax (OAS clawback) or the reduction of other income-tested government benefits.

Pension income splitting– the basics

If you or your spouse (including common-law spouse) receives eligible pension income during the year, you can split or allocate the eligible pension income for tax purposes. Generally, one spouse can allocate an amount between 0% to 50% of the eligible pension income to the other spouse. In order to lower your family's tax bill, the higher income earner will generally allocate their eligible pension income to the lower-income earner.

Who may benefit from pension income splitting?

These rules benefit couples where the primary recipient of the eligible pension income is subject to tax at a higher rate than their spouse. Married couples, as well as those who satisfy the definition of common-law partners under the Income Tax Act qualify for pension income splitting. This includes same-sex couples.

Eligible pension income

Only certain income is eligible to be split under the pension income splitting rules. The type of income that's eligible depends on the age of the person who's the *primary recipient* of the income.

If you're 65 or older by the end of the tax year, you may be eligible to split the following types of income with your spouse:

1. A life annuity payment from a superannuation or pension plan (including the Saskatchewan Pension Plan).

2. In certain cases, a life annuity payment from a Retirement Compensation Arrangement (RCA).

3. An annuity payment from a Registered Retirement Savings Plan (RRSP), which is an old insurance product that is no longer available.

4. A payment from a Pooled Registered Pension Plan (PRPP).

5. A payment from a RRIF, LIF, RLIF, LRIF or PRIF.

6. An annuity payment from a Deferred Profit Sharing Plan (DPSP).

7. A payment (including the income portion) from a regular annuity or an income averaging annuity contract.

8. A payment from certain foreign pension plans (including U.S. Social Security).

<u>Income that doesn't qualify</u>

- Old Age Security (OAS) benefits;
- Canada Pension Plan (CPP) benefits;
- Quebec Pension Plan (QPP) benefits;
- Death benefits;
- Retiring allowances;
- RRSP withdrawals, other than annuity payments from an RRSP;
- Amounts from a RRIF that are transferred to an RRSP, another RRIF or an annuity;
- Any foreign source pension income that is not taxable in Canada;
- Income from a U.S. Individual Retirement Account (IRA);
- Amounts received from a salary deferral arrangement.

This strategy may be beneficial to you when completing your annual income tax returns. Your accountant will be able to advise if income splitting is right for you.

*The information in this article on pages is derived from RBC Dominion Securities Portfolio Advisory Group's *Pension income splitting* article. *For 2014 and subsequent taxation years, if you live in the province of Quebec, you'll only be able to split pension income for provincial tax purposes if you are age 65 over.

How maximizing your TFSA can effect your savings

There are many benefits to a Tax-Free Savings Account, but the ability to invest funds for tax-sheltered growth and having no applicable taxes upon accessing the funds are right at the top of the list. Here is an example of how maximizing your TFSA can benefit you.

- **Put time on your side**

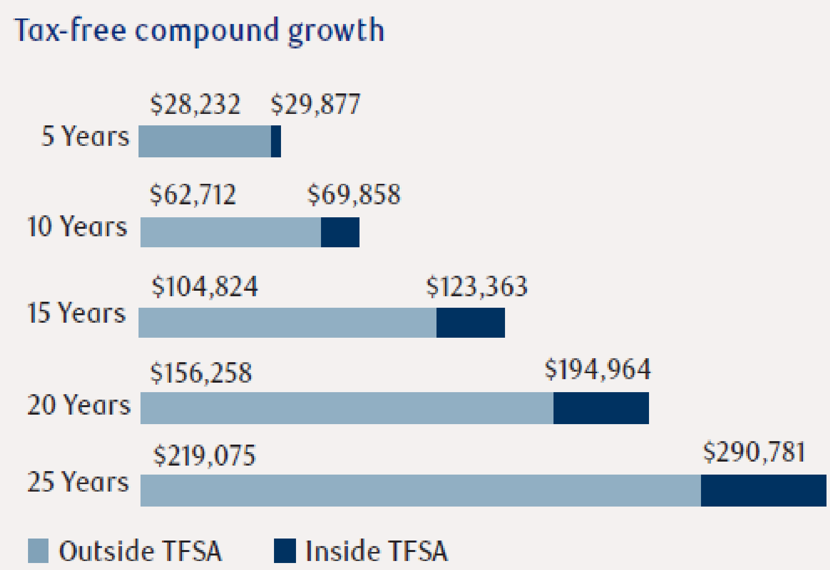
Contributing to your TFSA at the start of the year allows the funds to grow tax-sheltered for a longer time period, as opposed to making your contribution later in the year.

- **The after-tax effect**

This chart shows the value of compounding growth in a tax-sheltered environment. By fully utilizing your TFSA contribution room, your after-tax proceeds can increase significantly.

- **An Emergency Fund**

TFSAs are a great way to save and grow your wealth, and can also be considered for an emergency fund. Because TFSAs are not subject to the same withholding tax and income attribution rules as RRSPs, it can be a piece-of-mind emergency fund should you need to access cash in a time of great need.



This chart shows how $5,000 contributed annually and earning 6% interest per year would grow inside of a TFSA compared to a taxable investment account. Assumes tax rate of 32% outside TFSA, with interest income taxed annually. All contributions made at beginning of year. Annual compound rate of return of 6%. For illustration only and not indicative of future returns. Excludes fees and commissions. Actual tax rates and rates of return will vary.

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Contact us

We are committed to providing you with the highest quality of service. If you have any questions, if there is anything we may assist you with, or if you would like to speak in greater detail about anything, please let us know.

Naveed's Note: Both RRSP contribution receipts and RRIF Evaluation Letters will be sent out beginning in late January. Tax Packages will be sent out starting in late February and into March. If you have any questions or need assistance with your tax documents, please contact Naveed Azad at 604-257-7653 or naveed.azad@rbc.com.

Closing Quote

"The most important investment you can make is in yourself"

-*Warren Buffett*