PRIVATE WEALTH MANAGEMENT

CIBC WOOD GUNDY

PERSPECTIVE

Fourth Quarter 2017

Boychuk Knoblauch Financial Group
CIBC World Markets Inc.

Speaking Personally:

This is the final issue of Perspective for the year; a good reminder that the end of year is quickly approaching. Take advantage of available opportunities to help minimize 2017 taxes or meet year-end deadlines: donations (including the first-time donor super credit that expires in 2017), RESP contributions and tax-loss selling, to mention a few.

If you know of someone who could benefit from our support, or if you require assistance, please let us know as we are always here to help. We hope that you have taken time to enjoy the Thanksgiving season with friends and family. Have a great autumn!

In This Issue:

THE WINDS OF ECONOMIC CHANGE

The winds of change are ever-present in the investing world. It wasn't too long ago that economists were raising concerns over the negative impact of continued low oil prices on Canada's economic growth prospects. Fast forward to today and that tone has changed significantly. In July, the Bank of Canada expressed its confidence in the Canadian economy by raising the overnight target interest rate for the first time in seven years. This key rate was increased again in September. Despite lower resource prices, Canada's gross domestic product (GDP) figures have exceeded expectations; so much so that the International Monetary Fund (IMF) now expects that Canada will have the fastest GDP growth of the G7 countries.

Investors have, once again, faced a changing investing landscape. This has included rising interest rates and a strengthening Canadian dollar, due in part to improved economic performance and higher interest rates that have made Canadian dollar deposits more attractive. If interest rates continue to increase, however, it will likely be at a gradual pace.

The winds, too, continue to shift in the world around us. Confronted by the U.S.'s protectionist rhetoric, many Canadian businesses have been watching closely as North American Free Trade Agreement (NAFTA) renegotiations take place. More recently, the media has been preoccupied with escalating geopolitical tensions between the U.S. and North Korea and the after effects of the hurricanes.

These changes should remind us that we are often at the mercy of current events when we invest. Interest rates, economic trends, commodity prices, even threats of war, can affect the markets. Sometimes the news is good; sometimes it is not (and, often, history has a way of repeating itself).

While we cannot control these developments, we can protect our portfolios through discipline and diversification. Maintaining discipline means staying focused on your investment plan during times of change. In rising markets, this includes not getting caught up in the momentum by chasing higher returns and abandoning your investment objectives and risk tolerance levels. In more difficult times, it involves having confidence in your plan. Your portfolio has been carefully created with your personal objectives in mind, to help meet your needs over the longer term.

Savvy investors should also remember that a well-constructed portfolio has been designed with the elements of diversification and asset allocation to help minimize downside risks throughout the changing times. Also worth a reminder: change can often bring short-term periods of volatility. But volatility is a normal part of the markets and should be expected.

Despite the many changes, some things remain the same. For investors, the basic principles of investing haven't changed: managing risk and maintaining value through quality, diversification, appropriate asset allocation and minimizing taxes. Likewise, the fundamentals that lead to successful long-term, financial independence remain the same: save wisely by "paying yourself first" and invest sagely.

MISTAKES CAN HAPPEN: TFSA OVER-CONTRIBUTIONS

The contribution rules for Tax-Free Savings Accounts (TFSA) have, without a doubt, been a source of great confusion. As the Canada Revenue Agency (CRA) continues to audit TFSA accounts, there have been cases in which clients have received notices indicating that penalty taxes are due for unknowingly over-contributing funds.

As such, this may be a good time to review the TFSA rules. Much of the misunderstanding relates to the recontribution of TFSA withdrawals, and here are two common mistakes that are made:

Funds are withdrawn from a TFSA and then recontributed within the same year. TFSA rules state that any withdrawals do not create contribution room until the following calendar year. As such, if you do not have available contribution room, the recontributed funds would be considered as an over-contribution for that year.

Funds are withdrawn from one TFSA to transfer them to another TFSA at a different financial institution. If this is not done correctly — through a direct transfer completed by the financial institution — over-contribution penalties may apply. If funds are withdrawn from one TFSA as cash and moved to the other TFSA, this is considered to be a withdrawal followed by a contribution. Contribution room for the withdrawal will not be reinstated until the next calendar year.

A Reminder: TFSA Contribution Room Limits[1]

YEAR	TFSA ANNUAL LIMIT	CUMULATIVE ROOM[2]
2009 to 2012	$5,000	$20,000
2013 & 2014	$5,500	$31,000
2015	$10,000	$41,000
2016 & 2017	$5,500	$52,000

Be aware that CRA penalties can quickly add up. A TFSA penalty is assessed at 1% of the over-contributed amount per month until the excess amount has been removed from the TFSA (or more contribution room becomes available). In one case, an indirect transfer of $5,000 made in 2015 from one TFSA to another was considered to be an over-contribution. The penalty was calculated at $50 per month for 24 months, totaling $1,200.

THE BOTTOM LINE

Even with an understanding of the rules, over-contribution mistakes can easily be made. One of the problems has been that TFSA contribution room, unlike Registered Retirement Savings Plan (RRSP) contribution room, is not explicitly reported on the annual CRA Notice of Assessment. Here are two ways to help prevent mistakes from happening:

Keep good records. Information on TFSA contribution room is available online via the CRA's "My Account". You can contact the CRA to request a *TFSA Room Statement* or *TFSA Transaction Summary* that shows contribution and withdrawal information.

Consolidate accounts. If you have multiple TFSA accounts at different financial institutions, consolidation may help to simplify their administration and avoid any contribution confusion. This may also improve visibility and management of your asset allocation and eventually make settlement of your estate easier. Remember to ask your financial institution to transfer TFSA funds directly.

Finally, if you have received a penalty notice, be aware that there have been instances in which the CRA has provided relief to those who mistakenly over-contributed. As the CRA reviews each situation on a case-by-case basis, you may wish to contact them to discuss your situation.

Notes: 1. TFSA contribution room subject to eligibility rules. 2. As of 2009, TFSA room accumulates for each year in which you are at least 18 years old and resident of Canada.

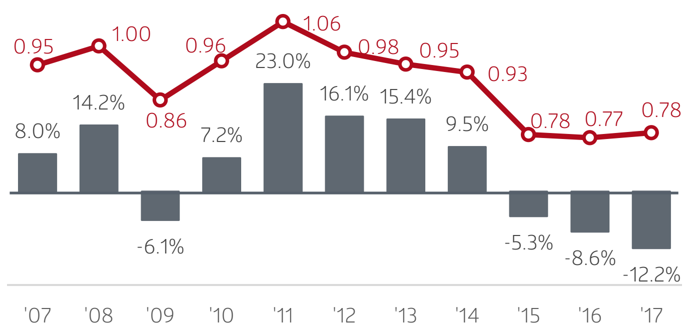
DIGESTING EXCHANGE RATE CHANGES: THE BIG MAC INDEX

Given its recent rapid appreciation, the Canadian dollar (CAD) has been in the spotlight once again. Will it continue its path upward? Is the CAD fairly valued? Here is some food for thought:

The "Big Mac Index" has been published by the Economist magazine for the past 32 years and is meant to be a fun tool to make exchange rate theory more "digestible". It compares the purchasing-power parity (PPP) of certain global currencies. PPP is the theory that over the long run, exchange rates should adjust so that an identical basket of goods and services costs the same in each country. Instead of using a basket of goods, the index uses the Big Mac hamburger. It creates an exchange rate by comparing the cost of a Big Mac in a nation's local currency to its cost in the U.S. Comparing the actual U.S. dollar (USD) exchange rate with this exchange rate determines whether a currency is considered to be under or overvalued.

The bar chart to the right shows the under/over valuation of the CAD versus the USD according to the Big Mac Index over the past 10 years. The actual exchange rate is shown in red. Some parting thoughts: currency fluctuations are a normal part of the financial markets. For longer-term investors with a well-diversified portfolio, the impact of currency changes on investment returns has the tendency to even out over time.

Big Mac Over/Under Valuation: Canadian vs. U.S. Dollar (July)



Source: economist.com/content/big-mac-index; June/July 2007 to 2017 data.

STUDENT IN THE FAMILY?

If you have a student in the family who has left town to attend university, the house is, no doubt, strangely quiet. While constant chatter on mobile phones or compulsive texting can be forgotten for a while, don't forget to take advantage of the available tax benefits to soften the cost of higher education.

RESP — Hopefully you already have a Registered Education Savings Plan (RESP) in place. We mention the RESP on a regular basis because we feel it is important for families. There are several meaningful benefits. Only through the RESP can you benefit from the federal government's Canada Education Savings Grant (CESG). Worth up to $500 per year per student beneficiary (to a maximum of $7,200 over a beneficiary's lifetime), these CESGs are granted to the plan when certain conditions are met. RESPs can encourage disciplined savings and provide the opportunity for compounded growth over time while deferring taxes. If you don't have an RESP for members of your family, please get in touch.

Beyond the importance of saving to support a child's education, students should keep good records to take advantage of tax benefits:

Tuition Tax Credit — The federal government provides this non-refundable credit worth 15% of the amount of tuition fees, with no maximum. Provincial credits are also available. If a student doesn't have sufficient income to use the credits in the year of attendance, the credit for up to $5,000 of tuition fees can be transferred to a spouse/common-law partner, or to parents or grandparents. Any

remaining tuition amount can be carried forward for use by the student in a future year.

Moving Expenses — Moving costs may be deductible. If a student attends a post-secondary program at least 40 km from home, but returns in the summer months for a job, these expenses may be deductible to the student.

Education and textbook tax credits that were previously available have been eliminated as of Jan. 1, 2017.

Enjoy the peace and quiet now; before we know it, the school year will be over!

Note that the comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

THE ROLE OF THE EXECUTOR: A LARGE ONE

Have you been named as an executor/estate representative/ liquidator/estate trustee of someone's estate? If so, you have been entrusted with a very important role. Being an executor can be a very large responsibility so here are a few things to keep in mind:

It is time consuming. Settling an estate generally takes about 18 months on average, but can take several years depending on its complexity. Duties of an executor can include arranging the funeral, finding, itemizing or even managing the estate's assets, applying for probate (in provinces where applicable), calling financial institutions to notify them of the death, filing income tax returns, liquidating or distributing assets as directed by the will, and more. The role may also involve visits to various financial institutions, as well as meetings with accountants, lawyers and perhaps even creditors and beneficiaries.

There are legal implications. As an executor, you may be held personally liable for any losses that are caused as you settle the estate. As an example, if the estate's assets were distributed prior to the estate's taxes being paid to the Canada Revenue Agency (CRA), the executor could be held personally liable for the balance of taxes due.

You may be required to manage conflict. Even within the most harmonious of families, conflicts can emerge as an estate is settled. Decisions will need to be made and parties may not agree, even if the executor acts without bias.

Your place of residence may have consequences. There may be complications to the estate if you, as the executor, and the estate are in different jurisdictions. For example, if you were appointed as the executor of the estate of a person living in Canada, but you decided to become a non-resident of Canada, the estate may also become a non-resident of Canada. This could trigger negative tax consequences. Executors residing in a different province than the jurisdiction of the estate may also face challenges such as being required to post an estate administration bond.

SEEK ADVICE

If you have been appointed as an executor and want to learn more, or if you would like an introduction to an estate planning specialist to discuss your situation, please call.

BUSINESS OWNERS: CHANGES AHEAD

In July, the federal government released a consultation paper and draft legislation that will likely result in changes to certain tax-planning strategies of private corporations. As indicated in the 2017 federal budget, the government is targeting tax strategies of high-income earners that it perceives to be unfair. The following strategies were identified:

Income sprinkling involving the shifting of income from a higher-income taxpayer to family members with lower personal tax rates.

Converting regular income into capital gains to reduce income taxes by taking advantage of the lower tax rates on capital gains.

Holding passive investment portfolios within a corporation, which take advantage of lower corporate income tax rates relative to personal income tax rates.

Within the paper, various proposed measures were suggested and the government opened a consultation period for responses until October 2, 2017. Once feedback has been reviewed, it is likely that changes to tax law will be made. To read more about the proposed changes, we can provide you with our report, *Private Corporations: Proposed Changes to Tax Rules*.

We will keep you posted. If you have a small business, be aware that changes may be forthcoming in these areas. If you have questions regarding the proposals or how they may potentially affect the tax planning of your private corporation, consult your tax and legal advisors.

IN BRIEF: JOINT OWNERSHIP PITFALLS

More frequently, parents and adult children are holding assets in joint ownership, such as investment accounts or properties.[1] This is often done to help with the management of assets as parents age, allow for ease of transfer of assets after the death of the parent and minimize estate administration tax (in provinces where applicable). However, holding assets in joint ownership with children may have some unintended consequences. Here are just a few:

It may cause estate equalization issues. Jointly-owned property will not form part of the estate. If the intent is to equalize an estate for multiple beneficiaries, there is no guarantee that a child will share the asset held in joint ownership after the death of the parent, which has sometimes led to court disputes. Income and estate administration taxes may also unevenly impact the value of an estate that includes jointly-owned property. In these situations, experts suggest documenting your intentions.

There can be tax implications. For example, transferring property to joint ownership may trigger a capital gain with tax payable in the year of transfer.

Assets could be exposed to creditors or a former spouse of a joint owner. This may occur in the event of financial difficulties or a marriage breakdown, thereby putting assets at risk.

These are only some of the potential complications of holding assets in joint ownership with children that you should be aware of prior to entering this type of arrangement. Please consult with legal and estate planning experts for advice on your particular situation.

Note: 1. "Joint ownership" refers to a situation in which an asset is owned by more than one person with rights of survivorship.

WITH THE COMPLIMENTS OF...

Boychuk Knoblauch Financial Group
CIBC World Markets Inc.

Tyson C. Boychuk, CIM
First Vice-President
Portfolio Manager
Investment Advisor
604.641.4394
tyson.boychuk@cibc.ca
Tyson Boychuk

Dean R. Knoblauch, CFA
First Vice-President
Portfolio Manager
Investment Advisor
604.641.4386
dean.knoblauch@cibc.ca
Dean Knoblauch

CIBC Wood Gundy
400 - 1285 West Pender St.
Vancouver, BC V6E 4B1
Toll Free: 800.661.9442
Edmonton: 780.491.0113
Whitehorse: 867.667.7402
www.BoychukKnoblauch.com