Birdsall Wealth Management Group Newsletter

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In this edition

Charlene M. Birdsall CPA, CMA, CIM®, CFP®
Wealth Advisor and
Portfolio Manager
204-925-2252
charlene.birdsall@nbc.ca

Calvin Birdsall, P.Eng., CIM®
Wealth Advisor and
Associate Portfolio Manager
204-285-2354

Jas Deol, DBA, CIM®
Wealth Associate
204-283-9079

The Largest Wealth Transfer in History is Here

It's been termed the "greatest wealth transfer in history." As the last of the Baby Boomers reach the age of 60 this year, and the oldest approach 80, an estimated $1 trillion of wealth has begun to change hands.[1]

The boomers are now commonly referred to as the "luckiest generation" due to their significant leap in prosperity, benefitting from substantial price growth in the housing and financial markets. Consider that the average price of a Canadian home has risen about 800 percent since 1981, when most boomers were in their 20s and 30s — the prime years for household formation.[2] At that time, a house cost around $75,000,[3] though we mustn't forget that a five-year mortgage back then reached a crippling 21 percent! Over the same period, the S&P/TSX Composite Index Total Return has risen by more than 3,000 percent.[4]

While much of this wealth is anticipated to be passed along, some suggest that we are instead witnessing a shift in the spending habits of the boomers. The ***Wall Street Journal*** published an article late last year suggesting that U.S. boomers were the "economy's silver bullet," with increases in spending by retirees propping up economic growth to largely avert a recession.

Regardless of the extent to which wealth will transfer, the inevitable generational shift should prompt questions about our own wealth management. Are you prepared for this transition?

According to recent surveys, we may not be doing the best job. Studies continue to show that around one-half of Canadians still don't have a will; surprisingly, this hasn't changed over many decades. Only one-quarter of us appear to have a plan for our assets if we are unable to make financial decisions, and only 21 percent have had detailed discussions with beneficiaries or executors of their will.[5] How about you?

Even if we do have a detailed plan to pass along our assets, many of us do not feel confident in the next generation's ability to preserve or grow their inheritance.[6] The old "shirtsleeves to shirtsleeves" adage still holds true, suggesting that wealth gained by one generation is often lost by the third. The first works hard to accumulate wealth, the second benefits and maintains it and the third, having not experienced the hardships of wealth creation, ends up losing it. Planning ahead may be one way to mitigate this risk. Whether it is working alongside you to facilitate a generational wealth transfer plan or assisting younger folks with wealth management education or investing support, we are here to help.

Summer often affords us a bit more downtime, making it an opportune time to assess your own wealth transfer plan. If you've yet to give your estate plan the attention it deserves, why not make this a priority? It has the potential to enhance your overall wealth management and can be one of the greatest gifts you leave for your loved ones.

1 https://financialpost.com/personal-finance/retirement/canadian-inheritances-could-hit-1-trillion-over-the-next-decade-and-both-bequeathers-and-beneficiaries-need-to-be-ready
2 Based on CREA April 2024 average national home price of $703,446 and 1981 price of $75,000. These figures are not adjusted for inflation, however consumer prices have risen about 200 percent over those 43 years
3 https://policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2010/08/Canadas%20Housing%20Bubble.pdf (page 4)
4 S&P/TSX Composite Total Return Index 1/31/81: 2,658.85 and 1/31/24: 84,500.02
5 https://www.ig.ca/en/media-room/media-releases/ig-estate-planning-study-despite-aging-population-most-canadians-lack-estate-plan
6 https://financialpost.com/personal-finance/family-finance/high-net-worth-families/most-high-net-worth-individuals-lack-inheritance-plan-despite-largest-transfer-of-wealth-coming-study

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Planning Ahead: A Rising Capital Gains Inclusion Rate[1]

It has been over 20 years since we've seen changes to the capital gains tax. Since late 2000, 50 percent (½) of realized capital gains have been subject to tax. As of June 25, 2024, the inclusion rate increases to 66.67 percent (⅔) for corporations and trusts, and on the portion of capital gains realized in the year that exceed $250,000 for individuals.[1] The table shows the impact on a capital gain of $500,000 for an individual (assuming no other gains). Are there ways to manage the potential tax bite? Here are a handful of ideas:

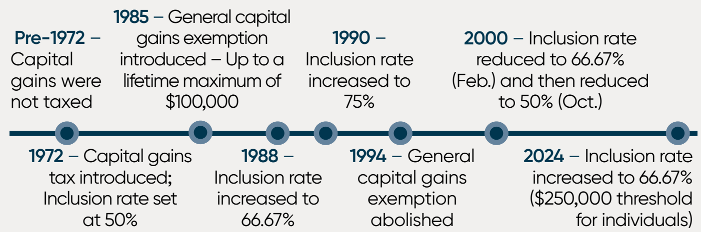
Weigh the benefits of a lower inclusion rate — Tax deferral is commonly viewed as a way to create greater returns since funds that would otherwise go to pay tax can remain invested for future growth. However, individuals may wish to evaluate the possibility of accelerated taxation at a lower rate versus deferred taxation at a higher rate: a higher inclusion rate for gains over $250,000. For example, based on a capital gain of $100,000 and a marginal tax rate of 48 percent, an investor would save $8,000 in taxes by realizing a gain at the lower inclusion rate. Yet, this comes at the cost of "pre-paying" $24,000 in capital gains tax today. If this amount was invested with a return of 6 percent per year, it would take 7 years of tax-deferred growth, based on a ⅔ inclusion rate, to beat the $8,000 in tax savings.

Spread gains over multiple years — If possible, consider realizing gains over multiple years to take advantage of the lower inclusion rate (under $250,000) versus a larger realized gain in a single year.

Crystallize gains — Deliberately selling and rebuying stocks to trigger a capital gain ("crystallizing") can reset the cost basis over time. This strategy, often used in years when an investor is in a lower tax bracket, may help to capitalize on the lower inclusion rate each year.

Plan to cover increased tax liabilities — Plan ahead for an increased tax liability. The use of insurance or other planning techniques may be considered to cover the eventual higher tax liability, such as for the transfer of family property.

A History of Capital Gains Tax in Canada



Source: "A Primer on Capital Gains Taxes in Canada," CBC, 10/18/2000.

Donate securities — Assuming new rules apply to the deemed disposition of assets at death, if you're considering donations in estate planning, consider using publicly-listed securities to a registered Canadian charity as any accrued capital gain is excluded from taxable income and a donation receipt equal to the value of the donated securities is received. Note: If managing over a lifetime, this doesn't apply to a situation in which the AMT is triggered.

How Much More For a $500,000 Gain?

Province	Tax Rate on Capital Gain*		Additional Tax
	½ Inclusion	⅔ Inclusion	
BC	26.75%	35.67%	$22,292
AB	24.00%	32.00%	$20,000
SK	23.75%	31.67%	$19,792
MB	25.20%	33.60%	$21,000
ON	26.76%	35.69%	$22,304
QC	26.66%	35.54%	$22,213
NB	26.25%	35.00%	$21,875
NS	27.00%	36.00%	$22,500
PEI	25.88%	34.50%	$21,563
NL/LB	27.40%	36.53%	$22,833

*For individuals based on top marginal tax rates 01/01/24.

Business owners — Evaluate whether certain assets should be held in the corporation or owned personally. For corporations, there is no $250,000 threshold; realized gains are taxable at a ⅔ inclusion rate. The use of corporate-owned insurance or an individual pension plan may be considerations for a business' tax strategy. Plan ahead to use deductions, such as the lifetime capital gains exemption, to reduce taxes payable on the disposition of qualified shares.

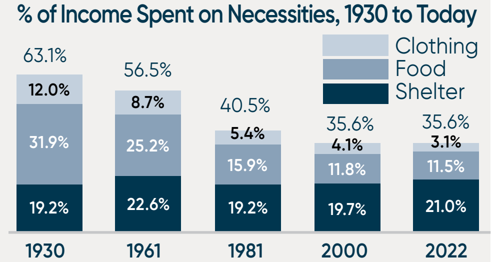
As always, seek advice from a tax expert regarding your situation.

1 Note: At the time of writing, legislation has not been enacted.

The Increasing Cost of Living: A Taxing Time

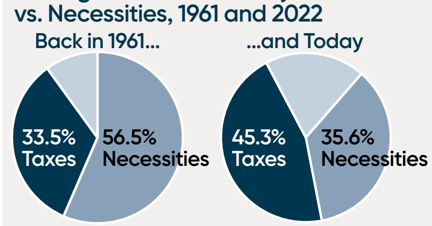
While the growing cost of living continues to be top of mind for many, a differing perspective has emerged on our cost pressures. Despite the rising prices we see today, the proportion of income spent on necessities like food and clothing has declined substantially over time. In 1961, Canadians allocated one-third of family income to these costs; today, they make up less than 15 percent.

% of Income Spent on Necessities, 1930 to Today



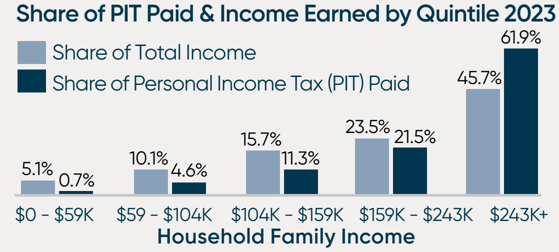
Instead, a recent report suggests that the burden of escalating expenses weighs more heavily on taxes.[1] The Canadian Consumer Tax Index tracks family expenditures on necessities (food, shelter, clothing) and taxes. Today, the average Canadian family spends 45.3 percent of income on total taxes (pie chart). Since 1961, there has been a 2,778 percent increase in the taxes we pay, far outpacing the 863 percent increase in the Consumer Price Index that measures changes in prices.

Average Canadian Family's Tax Burden vs. Necessities, 1961 and 2022



Who shoulders the heaviest tax burden? When comparing the share of tax paid to share of income, the highest-income earners do. The top 20 percent of income earners (family income over $243,000) pay 61.9 percent of personal income taxes (PIT) but represent only 45.7 percent of total income. Every other income group pays a smaller share of PIT versus share of income.[2]

Share of PIT Paid & Income Earned by Quintile 2023



1 https://www.fraserinstitute.org/studies/taxes-versus-necessities-of-life-canadian-consumer-tax-index-2023-edition
2 https://www.fraserinstitute.org/studies/measuring-progressivity-in-canadas-tax-system-2023

Your Home Is Not a Retirement Plan

Summer — the season for home sales — is here! With real estate prices continuing their rise, it may be tempting to see your home's value as a potential source of retirement income. However, when supporting clients in planning for retirement, it's generally not recommended to factor in a home's value as a primary part of that plan. While some homeowners consider downsizing as a way of unlocking retirement funds and others may look to borrow against their homes, there are reasons to exercise caution in relying on home equity for retirement. Here are a handful:

You may not move — If you are planning to sell your home and downsize, there is a good chance you may eventually decide not to move. Recent reports suggest seniors are now less likely to sell their homes before age 85; the sales rate among those ages 75 or more has been trending downward since the 1990s.[1] This may not be surprising. Selling a lifelong home can be more emotionally difficult than many anticipate. Many seniors remain in their dwellings to stay close to family, friends or their community and to maintain their sense of independence. Some have instead chosen to "downsize from the inside," using a small part of their homes to reduce costs like heating.

Low housing supply — Even if you do plan on downsizing or renting, will you be able to find suitable accommodation? While selling a home in this market may be easy, finding a suitable replacement may be more challenging given low inventories, including rental properties.

Moving can be expensive — The costs associated with moving homes may be greater than anticipated: real estate fees, lawyers' fees, land transfer tax, staging and other expenses can add up to be significant. There may also be other unanticipated expenses that come with a new dwelling, such as maintenance, renovations and, if you end up in a condo, monthly management fees. All of these costs can erode the net financial gain by downsizing.

Higher interest rates — Recent reports suggest that around 25 percent of retirees carry mortgages as individual wealth has shifted to real estate.[2] Many mortgage holders have seen mortgages reset at higher rates, leading to lower disposable income, especially for those on fixed incomes. While it's possible to access home equity for retirement, consider that this has become more costly with rising rates. Reverse mortgages, although not common in Canada, may allow you to borrow against home equity (usually up to 55 percent) with minimal proof of income. Yet, reverse lenders charge very high rates and there are few large providers. More commonly, a home equity line of credit, often secured prior to retirement when income is high, allows you to draw on the line as needed and pay interest only on what you borrow.

These are just a handful of reasons to exercise caution when considering home equity for retirement. For a deeper discussion on this, or any other aspects of retirement planning, please call the office.

1 "Canadian seniors not downsizing, partly owing to lack of options," S. Peesker, Globe & Mail, 02/12/24
2 "Wealth tied up in real estate can hurt your retirement," R. Carrick, Globe & Mail, 11/30/23, B10.

Timing Is Everything: Why Some Regret Taking Early CPP Benefits

With most Canadians choosing to start their Canada Pension Plan (CPP) benefits early, there's been growing attention to the potential advantages of waiting. Recall that starting CPP benefits before age 65 (as early as 60) decreases payments by 0.6 percent per month, whereas delaying beyond 65 increases payments by 0.7 percent per month, up to 42 percent (age 70). Actuarial studies continue to show that many people are better off delaying benefits as the break-even age[1] is often below the average life expectancy. Those who live past the break-even age will receive a higher overall benefit by waiting.

Of course, this decision is influenced by various factors beyond just life expectancy, such as immediate income needs. As more Canadians work past age 65, the impact of retiring early, or late, should also be a consideration. Working past age 65 and delaying benefits can lead to a potentially greater benefit. This is because CPP benefits are generally calculated using the best 40 years of income, usually between ages 18 and 65. Since lower-earning years tend to be at younger ages when first starting a career, extending the working years past age 65 may add higher-earning years to the calculation, thus increasing the benefit.

CPP Timing: Change Your Mind?

If you start benefits and change your mind, you can cancel CPP within 12 months of its start. The cancellation must be in writing to Service Canada and you must pay back the benefits received.

The good news? It doesn't work the other way: Any low-earnings years after age 65 will have no effect on the benefit calculation. Yet, if you retire before 65 and wait to take benefits, the zero-earnings years can negatively impact the benefit. Retiring at 60 and waiting to collect CPP at 65 could add five zero-earning years to the calculation.

Regrets, We've Had a Few...

Indeed, the old words of Frank Sinatra may be a reminder to carefully consider the timing decision. A recent article in the Globe & Mail highlighted Canadians who had "regrets" after starting benefits early:[2]

Impact on survivor benefits — One widow discovered that starting her own CPP reduced her maximum entitlement from survivor benefits. She was also unaware that survivor benefits would change when she turned 65 and hadn't considered the impact of deferring her own benefits beyond that age.

Legacy considerations — A man who wasn't in immediate need of the funds wished he had delayed his CPP after realizing how much more he would have left for beneficiaries. One study suggests that taking CPP at age 60 instead of 70 can forgo $100,000 of lifetime benefits.[3]

Inflation adjustments — Another retiree noted that had he waited, the multiplier for starting later would have further enhanced the inflation-indexed benefits.

Returning to work — One man who began receiving CPP at 60 and retired at 63 decided to return to work. He regretted starting early due to the taxes paid on CPP income during his subsequent employment.

1 The age at which total benefits received by delaying payments exceed total benefits received by starting payments earlier.
2 https://www.theglobeandmail.com/investing/globe-advisor/advisor-news/article-these-canadians-wish-they-had-waited-to-take-their-cpp-benefits-heres/
3 https://www.fpcanadaresearchfoundation.ca/media/5fpda5zw/cpp_qpp-reseach-paper.pdf

Estate Planning: Two Often Overlooked Areas — Digital Assets & Pets

As you consider your estate planning, have you taken into account two often overlooked areas: your digital footprint and pets, if any?

Digital Assets: Your Footprint May Be Larger Than You Think!

As we spend more time online, our digital footprints have expanded. Yet, digital estate planning is commonly overlooked, often leaving family members to navigate a complex web of online assets and accounts. It's important to consider the way we will eventually transfer these assets — not just because of the potential monetary value. Some assets contain personal information that can be used by fraudsters to target the deceased or, worse still, relatives who may be vulnerable during a difficult time. Others have sentimental value: photos or videos may provide comfort for those left behind.

Here is a list of digital assets to consider when estate planning:

- **Online Financial & Digital Currency Accounts:** Bank, investment accounts, retirement and cryptocurrency accounts with value.
- **Social Media Accounts:** Facebook, Instagram, LinkedIn and others for their personal/sensitive information or sentimental value.
- **Email Accounts:** May contain sensitive or important communications.
- **Digital Files:** Photos, videos, documents and other digital files stored on computers, smartphones or cloud storage services.
- **Domain Names/Websites:** May have financial or sentimental value.
- **Intellectual Property:** Copyrights, trademarks, patents or royalties associated with digital content such as ebooks, music or software.
- **Digital Memories:** Digital photographs, videos or other personal memories stored on devices, online or via the cloud.
- **Digital Subscriptions:** Streaming services, software or other digital services that may hold your sensitive data or need to be cancelled.
- **Online Businesses:** If you own or operate an online business, it's important to plan for its succession or dissolution.

The list may be a reminder of how digital footprints have grown over the years. There are steps we can take today to help safeguard our digital assets and provide future access. Planning ahead is important.

Planning for Pets: A Formal Arrangement Can Help

Many pet owners consider their pets part of the family. Yet, they are often overlooked during estate planning, perhaps because the focus tends to be on distributing assets/property. What many may not realize is that, for estate planning purposes, pets are legally considered personal property in Canada. This means that it is not possible to name a pet as a beneficiary in a will. Laws are evolving — Alberta and Quebec have recognized animals as "sentient beings" and B.C. recently amended its Family Law Act to no longer classify pets as property in separation/divorce proceedings.

If you own a pet, consider the importance of planning ahead. Some owners assume that family or friends will automatically care for a pet after they are gone; however, without a formal arrangement this can lead to disputes or neglect. Others may overlook factors such as the pet's age, health and specific needs when choosing a caregiver.

Some make provisions in their will for their pet's care, including designating a beneficiary to receive the pet and ensuring adequate funds are allocated for care. This is recommended as a beneficiary may decline the gift of the pet if they are unable to care for it. Others explore the option of establishing a trust, where a third party holds funds for the benefit of the pet. Yet, keep in mind that a chosen trustee may not necessarily adhere to the terms of the arrangement, or there may be other implications depending on the jurisdiction, such as potential tax considerations or reporting obligations.

If no provision has been made in the will, the executor will decide what happens to the pet. As such, if there are specific wishes for your pet, including these within an estate plan is important. Additionally, given that pets often require immediate care, in the event of an emergency consider carrying a card in your wallet with details about the pet's location and someone who can provide immediate support.

The Bottom Line: Planning ahead for the care of your loved ones, including making provisions for digital assets and pets in your estate plan, may be one of the most thoughtful legacies you leave behind. As always, please seek advice regarding your situation.

Increasing Capital Gains Inclusion Rate: Planning for a Cottage/Cabin

It is summer once again — and cottage and cabin season is well underway. However, this year has brought new potential challenges for cottage and cabin owners. Given proposed increases to the capital gains inclusion rate,[1] when the property is eventually transferred or sold, there is likely to be a higher tax liability. Some realtors claimed that the spring brought "chaos," with many cottage owners rushing to sell ahead of the June 25 deadline for capital gains tax changes.[2]

One of the most common issues that vacation property owners face is covering a potentially large capital gains tax liability triggered upon its transfer, especially if they wish to keep the property in the family. With real estate prices soaring, a cottage or cabin with a cost base of $500,000 could easily be valued at $1.5 million or more in today's markets. Before the recent tax changes, only one-half of this potential $1,000,000 capital gain would be subject to taxes. Now, for realized gains over $250,000, two-thirds will be taxable. At the top marginal tax rate of 53.5 percent (using BC as an example), this change will result in an additional $66,875 tax liability, with a total tax bill of $334,375 or ($250,000 X ½ + $750,000 X ⅔) X 53.5% assuming no other realized gains. This is certainly not insignificant by any means.

As you think ahead to the eventual transfer or sale of a cottage or cabin, here are four things to consider:

Invest in life insurance — Insurance has traditionally served as a solution to cover such tax liabilities at death and may be a worthwhile consideration should you wish to leave the property for the next generation. This involves purchasing a policy with the death benefit equal to the expected tax bill. The proceeds will typically be paid tax free and may avoid probate fees (in provinces where applicable), allowing beneficiaries to cover the tax liability and keep the property in the family. You might even arrange it so that the annual premium cost is paid by the eventual beneficiaries.

Consider the Principal Residence Exemption (PRE) — If the property qualifies for the PRE, you may consider designating it as a principal residence. Since only one property can be designated in any given year, you will need to decide which to designate; this needs to be determined at the time you dispose of any property you own. While the decision is rarely straightforward and often requires considering multiple factors, such as predictions about the future value of the remaining residence(s), generally, you should consider designating the property with the largest average capital gain per year to reduce the overall tax liability.

Transfer ownership over time, where possible — You may wish to transfer ownership over time, where possible, such as to children or other family members. At the time of transfer, a capital gain at fair market value would be triggered on only the portion of the property you transfer and taxes would be due. For instance, if you transfer half of the ownership in the above example over two different years, you could potentially take advantage of the lower inclusion rate for $250,000 of capital gains each year. However, be aware that there may be intricacies or other consequences that arise with a co-ownership arrangement, so a tax advisor should be consulted before engaging in this planning.

Keep track of capital improvements — Make sure to document all capital improvements such as renovations, additions or upgrades that increase the property's value. Be sure to save receipts. These can be added to the property's cost base, which can reduce the associated capital gains taxes owed when the property is eventually transferred or sold.

1 At the time of writing, the budget legislation has not been drafted or approved.
2 https://www.theglobeandmail.com/business/article-its-chaos-cottage-owners-rush-to-sell-ahead-of-capital-gains-tax/

Generational Wealth Planning: Bringing Kids to the Table

Many of us spend our lifetimes working hard to build wealth, but how do we preserve this wealth if we wish to create a legacy? Even if we do the best job in managing our own wealth, it may amount to little if we fail to adequately prepare the next generation for success.

The basic lessons haven't changed: Imparting good saving and prudent spending behaviours, helping children to set and achieve goals and teaching the virtues of investing and growing wealth. However, in this modern era of connectivity, young people face new challenges: an escalating catering to instant gratification, "fear of missing out" (FOMO), social media pressures of keeping up with the Joneses and financial misinformation spread by "influencers," to name a handful.

The good news is that Canadians appear to be engaging in financial discussions with kids at earlier ages.[1] Indeed, the resources available through the education system still lack consistency, so having conversations at home can help kids get a head start.

Starting early can yield significant outcomes down the road. Learning the basics of saving and spending can help to prevent bad credit habits later — it isn't unheard of to see young people undergo credit counselling due to credit card delinquencies. Recognizing how saving and investing can grow funds over time may be eye-opening. We often remind young people of the benefits of starting early: investing $265 per month at age 25 would yield over $1 million by age 75 at a rate of return of 6 percent, but starting later at age 45 would require almost $1,000 per month. Even small lessons in financial literacy can help in setting longer-term goals.

The ultimate goal, of course, is to ensure kids achieve financial independence as adults. Instilling good financial skills at a young age can also help to preserve wealth upon a generational transfer.

If you don't know where to start, the table provides ideas for each stage of life. We are also here to act as a resource. In brief, here are some ways we have helped families with financial education:

- Helping set up an in-trust account or small investment account. This may include purchasing a GIC to learn about interest income or exploring mutual funds/ETFs or shares that are relatable (Apple, Disney, etc.) to learn how the stock market works.
- Supporting family meetings to help younger folks understand our role and the services we provide: expertise, objectivity, planning and simplifying lives.
- Helping young adults open and manage a TFSA, FHSA or RRSP, supporting them in identifying goals and treating them as individual clients to foster independence.

If you are looking for support as you plan ahead to achieve a successful generational wealth transfer, please get in touch.

Financial Lessons for Each Stage of Life

Under Age 10

- Introduce an allowance when work is done
- Teach savings through the use of a piggy bank
- Teach about basic costs through trips to the grocery store

Age 10 to 17

- Set up a bank account; use a GIC to teach about interest
- Teach high-level cash flow management: spend using cash and high-level budgeting
- Use debit cards to teach about reducing balances
- Encourage a part-time job to learn to earn money and pay taxes; help kids file tax returns; teach about contributing to the RRSP
- Teach about the RESP in preparation for post-secondary school

Age 18 to 24

- Introduce credit cards and debt; teach the value of a credit score
- Set financial goals for education
- Teach investing; Open TFSA, FHSA and other investing accounts

Age 25+

- Support discussions on career, home purchase, marriage/families
- Provide counsel on setting short, medium and longer-term goals
- Have family discussions about shared values, succession planning

1 https://www.newswire.ca/news-releases/having-the-talk-with-your-kids-ahead-of-back-to-school-season-pc-financial-r-survey-finds-canadians-are-starting-to-talk-about-finances-earlier-811316772.html

Charlene M. Birdsall, CPA, CMA, CIM®, CFP®
Wealth Advisor and Portfolio Manager
National Bank Financial – Wealth Management
Tel.: 204-925-2252
charlene.birdsall@nbc.ca
charlenebirdsall.ca

Calvin Birdsall, P.Eng., CIM®
Wealth Advisor and Associate Portfolio Manager
204-285-2354

Jas Deol, DBA, CIM®
Wealth Associate
204-283-9079

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