Spring 2015

Financial focus

Use caution with TFSA ‘re-contributions’

The Tax-Free Savings Account (TFSA) is among the most versatile tools for your long-term financial well-being. Not only is investment growth tax-free, but you don’t have to pay tax on the money when you withdraw it. You can make withdrawals anytime you want without government-imposed penalties, and if you make a withdrawal, you can put the money back.

But be careful about that last point. When you make a withdrawal, you have to wait until the following calendar year to replace it. Get your dates mixed up, and you could get dinged with a tax penalty for overcontributing.

HOW IT WORKS

For example, suppose you contributed the maximum $5,500 in January of 2015. Then, in March, your car needed some unexpected repairs. You withdrew $2,000, planning to replace it as soon as you could.

This is where you need to be cautious. The amount withdrawn won’t be added to your contribution room until 2016. If you replace it in 2015, you’ll be assessed a penalty of 1% per month on the amount of your overcontribution.

MULTIPLE ACCOUNTS

Some people mistakenly think that they can open multiple TFSAs and contribute $5,500 per year to each of them. Not so. While you can have more than one TFSA, your combined total deposits cannot exceed your limit.

NEXT STEP: We can help you determine how to best capitalize on your TFSA whether you’re putting money in or taking money out.

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What are you most looking forward to in the months ahead? Perhaps one of your children – or even your spouse – will be starting or graduating from college or university. Or maybe you’re planning to move into a bigger home.

Whatever your goals, remember that we’re here to help you reach them. We’ll work with you to understand what you’re trying to achieve and help you plot a path to make it happen, with the support of a tailored financial strategy.

We’re looking forward to celebrating your successes with you!

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Global economy poised for growth in 2015

Canadian investors learned some important lessons in 2014, namely that sticking too close to home is not always a good investing strategy. With its high concentration of oil and gas stocks, the Canadian market was vulnerable to sliding oil prices throughout much of last year and into 2015. Investors who diversified some of their assets into the U.S. market fared better, as U.S. stocks staged another impressive rebound.

This year promises to provide Canadian investors with another lesson in the importance of geographic diversification, which remains one of the best ways to reduce risk and enhance potential returns over the longer term.

U.S. LEADS THE WAY

The U.S. is once again a beacon of hope for the global economy. Though there is still softness in some areas, notably in the housing market, the world's largest economy is on a clear uptrend, buoyed by an invigorated private sector.

The labour market has taken off and the resulting increases in household income, together with much cheaper gasoline, should boost consumption further. Exports could soften a bit as a result of the stronger U.S. dollar. National Bank Financial Economic & Strategy Group expects the U.S. economy to grow by 3% in 2015 — the best performance in a decade.

A TRIPLE BOOST TO GLOBAL GROWTH

The good news from the U.S. economy is expected to provide a triple boost to the global economy in the form of (1) improving U.S. demand for exported goods; (2) a stronger U.S. dollar, which will make these exports more attractive to U.S. consumers; and (3) lower oil prices.

In addition, low inflation will allow central banks in most major economies to support growth by keeping monetary policy highly accommodative. All of these factors bode well for the global economy, especially for export-oriented emerging nations.

The National Bank Financial Economic & Strategy Group expects global economic GDP growth to accelerate to 3.5% in 2015. In this environment, we continue to overweight equities, relative to the benchmark.

RISKS TO SCENARIO

The potential for stagnation in the Eurozone economies as well as rebalancing efforts in China may hamper global growth in 2015. Deflation in Europe and Japan also remains a concern. And while the stronger U.S. dollar is a positive for global trade, it could present problems if investors flee emerging market debt for the higher rates being offered in the U.S.

NEXT STEP: We can help you review your U.S. and global equity exposure in light of your risk tolerance and investment objectives. Please give us a call today to review your investing strategy.

Get your 2015 tax refund in 2015

Expecting your tax refund to arrive soon? You might think that's reason to celebrate — but think again. After all, a tax refund is just the government's way of paying your money back — without interest.

If you are expecting significant tax deductions in 2015 (perhaps from RRSP contributions, support payments, childcare expenses, or a large charitable donation), you can arrange to get your tax breaks throughout the year, rather than having to wait until 2016. All you need to do is fill out a little paperwork:

• File Form T1213, Request to Reduce Tax Deductions at Source, with the Canada Revenue Agency (CRA). Quebec residents also need to file Quebec provincial form TP-1016.

• If your request is approved, your employer will be authorized to reduce the amount of tax withheld at source, leaving you with more money every pay cheque.

• To really make the most of this strategy, consider setting up an automatic investment program for that money.

NEXT STEP: Whether you're looking for advice on how best to use your tax refund or how to avoid getting one next year, we're here to help you.

Giving to overseas charities? You might not get a tax receipt

The Canada Revenue Agency (CRA) recently changed the rules governing foreign charities and their ability to issue tax receipts. And the news isn't good if you support non-Canadian-based organizations.

Foreign charities must now formally apply to the CRA for qualifying status. Only charities that are involved in disaster relief, humanitarian aid, or activities deemed to be in Canada's "national interest" qualify.

As of this writing, the CRA has recognized only one foreign charity, the William J. Clinton Foundation. So while you can still donate to the Aga Kahn Foundation, your alma mater overseas, or any other non-Canadian charity, you might not be able to claim the donation on your tax return.

For a complete and current list of the eligible charities, visit http://www.cra-arc.gc.ca/ and search for "foreign charities."

NEXT STEP: Whether you're looking for advice on how best to use your tax refund or how to avoid getting one next year, we're here to help you.

Tax news for U.S. residents in Canada

If you're a U.S. resident living in Canada or a Green Card holder, legislation that went into effect in July of 2014 may have put you on Uncle Sam's tax radar.

The U.S. government has always required U.S. persons to pay U.S. taxes regardless of where in the world they actually reside. But the Foreign Account Tax Compliance Act (FATCA) takes that a very big step further. It compels foreign governments to actively participate in identifying and reporting those persons.

As a result, Canadian financial institutions now have to report accounts that appear to be held by U.S. persons to the CRA. The CRA then must share its findings with the IRS. And the IRS in turn, will undoubtedly use this information to ensure it's getting its fair share of your tax wallet.

The rules governing who is considered a U.S. person can be complex and can even extend beyond people to estates and trusts.

NEXT STEP: If you are a U.S. citizen, green card holder, or someone who spends considerable time in the U.S., consider meeting with your tax advisors to get clarity about how this sweeping legislation might affect you.

Reality check!

Part of the financial planning process is making assumptions. When we're looking at your long-term goals, we work with you to make "best guess" estimates about inflation, interest rates, investment returns, contribution levels, and so on.

But life doesn't always unfold the way we think it will. That's why it's important for us to meet regularly and compare "projections to actuals" — and make adjustments accordingly.

UNEXPECTED COSTS

Suppose it was your intention to invest $5,500 in your Tax-Free Savings Account (TFSA) and $5,500 in your Registered Retirement Savings Plan (RRSP) each year. We would have used those numbers to help gauge your potential retirement date and income stream.

But what if you had to use all of last year's intended RRSP contribution to help pay for a new roof? Now our projection is no longer in sync with your reality. That single missed investment of $5,500 could cost you almost $30,000 in 25 years from now (assuming a 7% annual compound return).

UNEXPECTED GAINS

It's not just unanticipated expenses that can affect projections. Good news can also have an impact. What if your investment returns are higher than we've assumed?

In that case, you might be able to reduce the risk level of your current investments, set aside a little less this year, or stick to your plan and decide what to do with the extra funds ... retire early, perhaps?

NEXT STEP: To ensure your plan reflects the reality of your fiscal life, we need to stay in regular communication and adjusting our projections — just one more reason to give us a call.

RRSPs — not just for adults

There is a very common misperception that only adults can open a Registered Retirement Savings Plan (RRSP). And while you do have to be the age of majority (18 or 19, depending on the province or territory) to open a Tax-Free Savings Account (TFSA), there's no minimum age to open an RRSP. All you need is earned income and to have filed a tax return.

So whether your kids are in high school or university, worked last summer, or are working part-time right now, there's a tremendous opportunity to set them on a path toward life-long financial security with this strategy.

GOT A JOB? FILE A RETURN

Apart from actually having a job, filing a tax return is the first step to implementing this strategy. Fortunately, this should be a fairly straightforward process, thanks to the many online services and the probable simplicity of your child's return. He or she will almost certainly not owe anything and might even get a refund.

The main benefit is that any earned income will immediately start generating all-important RRSP contribution room. In addition, any RRSP contributions actually made do not have to be deducted right away. They can be carried forward indefinitely and claimed when your child is in a higher tax bracket.

Once your child gets his or her Notice of Assessment, we can open the RRSP. (Note that if your child is under the age of majority, we will need a letter of consent from you and you will need to retain trading authority over the account.)

This is where the fun starts — sitting down with your young investor and reviewing the types of investments with the most appeal. Electronics? Sports? Clothing? Fast food? Travel? With such a long-term time horizon, there are few restrictions on the types of securities appropriate for a young person's portfolio.

THE MAGIC OF COMPOUNDING

Of course, starting early doesn't just provide tax savings and the valuable lesson of putting money aside for the future. It also makes a truly compelling case for the benefits of compound growth.

To really drive home the point, consider this example. Let's say your son invests $500 a year for the next five years and earns a 7% compound return. Even if he never invests another dime, his $2,500 investment will grow more than tenfold — to almost $30,000 — by the time he's 50.

To provide even more incentive, offer to match contributions while your child is in school. If you both invest $500 for the next five years, using all the same assumptions, your child will have $58,390 in 30 years.

NEXT STEP: Encouraging your child to open an RRSP as soon as he or she has earned income to contribute can help instill positive savings habits for the future. We'd be happy to meet with your son or daughter and demonstrate the benefits of saving and investing over the long term.

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