MacDougall Wealth Management Group Newsletter

Summer 2024

In this edition

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:

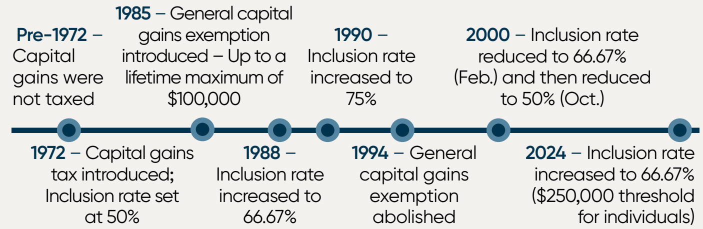
Weigh the benefits of a lower inclusion rate — Tax deferral is commonly viewed as a way to create greater returns since funds that would otherwise go to pay tax can remain invested for future growth. However, individuals may wish to evaluate the possibility of accelerated taxation at a lower rate versus 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.

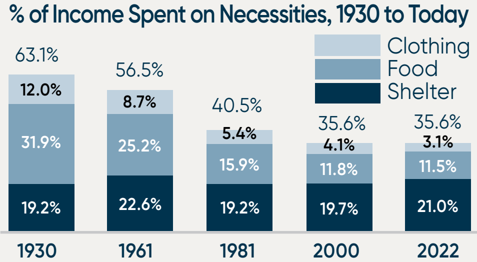
As always, seek advice from a tax expert regarding your situation.

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

The Increasing Cost of Living: A Taxing Time

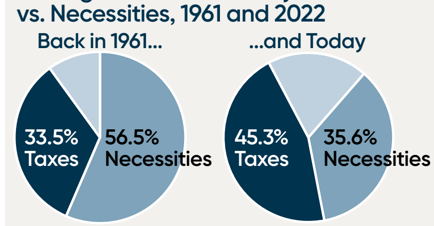
While the growing cost of living continues to be top of mind for many, a differing perspective has emerged on our cost pressures. Despite the rising prices we see today, the proportion of income spent on necessities like food and clothing has declined substantially over time. In 1961, Canadians allocated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

% of Income Spent on Necessities, 1930 to Today



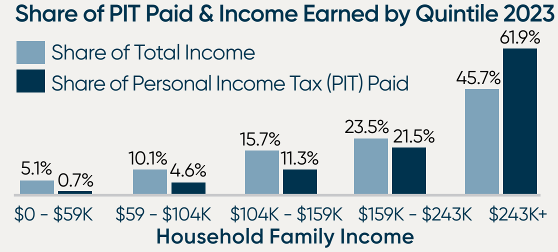
Instead, a recent report suggests that the burden of escalating expenses weighs more heavily on taxes.[1] The Canadian Consumer Tax Index tracks family expenditures on necessities (food, shelter, clothing) and taxes. Today, the average Canadian family spends 45.3 percent of income on total taxes (pie 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

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

1. Changes at MacDougall Wealth Management

We wanted to thank Shaylene Strangways for 9 years on the team and wish her the best in her future opportunities.

2. What The Team has Been Up To

Take me out to the Ball Game! The Red Deer branch got together to cheer on the Sylvan Lake Gulls team vs, the Fort McMurry Giants. Look for us indulging stadium hot dogs all summer long.

Kicking off Westerner Days! Did you spot Iain driving his 1927 Model T on July 17th?

K-Bro Linen Facility Tour

When investing for you, our clients, we are looking for businesses – businesses that create products, deliver services and drive innovative solutions. In April , we had the opportunity to tour K-Bro Linen's (KBL) Edmonton facility and meet the senior leadership team.

Many of you will be familiar with KBL, as it has been a long-term holding within the MacDougall portfolio. For those of you who need a refresher, KBL is a Canadian-based owner and operator of market leading laundry and linen processing facilities across the Canada and United Kingdom. The majority of their business services health care, which includes providing clean surgical linens, scrubs, towels, etc. The other major sector KBL services is hospitality, providing linens to major hotel chains.

Laundry and linens may not be the first place you look for technological advancements, however, what struck our team was the thoughtful design of equipment, placement and process within the plant. The depth of senior managements knowledge within the laundry and textile industry was evident, and their continous improvements have created operational excellence along KBL's entire supply chain.

Following the pandemic, KBL had faced numerous challenges. The main concerns, in our view, included rising energy costs for natural gas (which is used in their drying process) and increased labour costs. The hospitality sector was almost completely locked down during this time. Dealing with challenges is part of running any business, but we believe the talented team and financial capacity of KBL continue to make KBL a company in line with our investment philosophy.

In our view, a company's financial results are important, but we must not overlook other qualities that create a company with an enduring competitive advantages. For KBL, a few key elements we observed:

1. Many senior executives had started in the company at the ground level. They can relate to their teams and understand their challenges. KBL's corporate culture of teamwork and respect was evidence that their culture is more than a slogan or piece of paper

2. The collective intelligence of KBL's team enables them to solve difficult challenges within their operating, client and financial areas3)The team is focused on building a durable, sustainable and profitable business. They are not concerned about day-to-day fluctuations in the stock price – but rather building value over time.

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