Milestone Elements

FIRST QUARTER 2014 NEWSLETTER

Branch Manager News

by Steve Booker BComm, CFP, CLU, CIM

Normally at this time of year, we would have released a considerable commentary on the Federal Budget. This year, however, was a rather ho-hum budget, as the government sets its sights on a balanced budget and not on rolling out any substantial tax breaks for investors.

One area we are disappointed in is the curtailing of testamentary trusts' graduated tax rates. We at Milestone are proponents of clients setting up in their wills so that a portion of their estate rolls into a trust for their spouse, rather than going directly to their spouse. This arrangement creates two tax payers–the trust and the spouse–both at graduated tax rates, a strategy which is preferential to heaping all of the remaining income onto the surviving spouse. The proposed changes in the new budget will do away with this income-splitting opportunity.

Unrelated to the Federal Budget, we do have a cheer on behalf of our snowbirds for a recent change implemented by the Alberta government. In December 2013, the Alberta government announced that they have extended the out-of-country health care coverage from six to seven months, joining British Columbia, Manitoba, Ontario and Newfoundland in extending health care coverage for those who travel or reside outside of Canada for a significant portion of the year.

On a more personal note, I recently joined my colleague Shawn Boos in celebrating 15 years at Milestone Asset Management. We both started here in 1998, when our organization was known as Miles Financial Group. Since then, we have been through twists and turns in the market, seen co-workers become good friends, and witnessed the growth and success of Milestone. None of that would have been possible without you, our valued clients and supporters, and for that, we thank our clients, friends and associates. The anniversary celebration was ultimately a celebration of the relationships we have with you, and we look forward to celebrating many more milestones in the years to come.

Balanced Budget? by Shawn Boos CIM, CFP

A principle objective of the federal government's budgets for the past few years has been achieving a balanced budget. It has been a long road to eliminating the budget deficit that resulted from the Great Recession of 2008/09, however it now looks like the government is set to achieve that goal in the next budget. This budget will be released in February 2015, less than a year before the next federal election is scheduled.

In the last election in 2011, the Conservatives made a couple of promises to Canadians which hinged on the balancing of the budget. One such promise was that they would double the amount that Canadians can contribute to their TFSA. The contribution limit is currently $5,500 every year. The suggestion is that, starting in 2015 (or perhaps 2016), each individual may be able to contribute $11,000 to their TFSA in a calendar year. We believe this would be a very positive development for investors or anyone with the ability to save in investments outside of their RRSPs.

A second commitment made by the Conservatives is related to income splitting for households with children under the age of 18. Currently, couples over the age of 65 can split eligible pension income (including RRIF income), a strategy which can go a long way towards evening out household income between two spouses.

If the Conservatives do go ahead with their plan, this new tax rule would allow households to split the first $50,000 of income between the two spouses, provided that they have at least one child under 18 in the household. Similar to the current rules for retirees over age 65, this proposed change would help to reduce the tax that these households pay by evening out a portion of family income.

This would also be a positive development, helping an estimated 1.8 million households. It would, however, be costly to the government, with the annual loss in government revenue estimated at around $2.7 billion. Perhaps not surprisingly, there now seems to be some second-guessing within the Conservative party on this particular promise. Jim Flaherty himself has suggested that he is not in full agreement with this plan, saying that "income-splitting needs a long, hard analytical look." On the flip side, Stephen Harper came out in defence of the policy, saying, "Income-splitting has been a good policy for seniors in Canada, and it will also be a good policy for Canadian families."

So although in recent years the budget has been very 'status quo' in light of balancing efforts, the budgets in coming years could contain some real changes and undoubtedly spark some debate. Stay tuned…

2014 Federal Budget Overview provided by Sun Life Assurance Company

Finance Minister Jim Flaherty presented the 2014 federal budget on Tuesday, February 11th. Unlike last year, there weren't any major measures impacting our industry that hadn't been anticipated or previously announced. The primary focus was on job creation and improving the health of the labour market. Flaherty is clearly focused on balancing the budget and achieving a surplus in 2015, as the Conservative government ramps up for the next federal election.

The following are highlights specific to the financial planning sector that may be of interest to you.

Taxation of testamentary trusts

Last year, the government announced its intention to consider eliminating the application of graduated tax rates to testamentary and grandfathered *inter vivos* trusts (which include certain *inter vivos* trusts created before June 18, 1971). The consultation period ended in December 2013, and this year's budget proposes to proceed with the measures outlined in the consultation paper. This includes applying flat top-rate taxation, which would put testamentary trusts more in line with the taxation rules currently applied to most inter vivos trusts.

Certain exceptions will apply to estates for the first 36 months to allow for an administration period, as well as to trusts with beneficiaries who qualify for the federal disability tax credit.

Continuing to move forward with revised exempt test legislation

Another measure that originated from a previous year's budget – this time, in 2012 – involves the proposed changes to the life insurance exempt test rules and related legislation. The government released a draft version of the proposed rules for comment in August 2013 and has since been engaging in consultation with the industry and other interested parties.

Budget 2014 doesn't provide any new information on the direction of these proposals apart from reconfirming the government's commitment to continuing to move forward on this initiative.

Donations in the year of death

The budget is proposing to add flexibility to donations made in the year of death. Donations made by will or by beneficiary designations (under and RRSP, RRIF, TFSA or insurance policy) will be deemed to have been made by the estate, as opposed to by the individual immediately prior to their death. With this change, the trustee will now be able to allocate any of these donations in one of three way:

- to the taxation year of the estate in which the donation is made,
- to an earlier taxation year of the estate, or
- to the last two taxation years of the deceased individual.

This measure is intended to apply to deaths after 2015 and would be applicable to 2016 and subsequent taxation years. The current limits related to the amount of allowable charitable donation tax credits that may be claimed will continue to apply.

Medical expense tax credit

In a narrow expansion to the list of eligible expenses qualifying for the medical expense tax credit, costs associated with certain service animals (diabetes alert dogs) and amounts paid for the design of individualized therapy plans meeting specific conditions are intended to be included, for expenses incurred beginning as of 2014.

Pension transfer limits for underfunded plans

For members leaving a defined benefit registered pension plan, existing rules determine the value that can be transferred on a tax-free basis to other types of retirement savings plans (such as an RRSP, RRIF, money purchase RPP, or a PRPP). The government had previously introduced relieving provisions in 2011 for plan members where the plan was wound up due to insolvency. This budget proposes to expand the scope of these relieving provisions to additional circumstances involving underfunded plans, which would be applicable to certain commutation payments made after 2012.

According to the budget, these relieving provisions will also be available in situations involving an underfunded individual pension plan where the plan is being wound up.

For more information

For more information on the 2014 budget, please visit http://www.budget.gc.ca/

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