

# InTouch

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Wendy  
Strub  
Wealth Management

## October is Investor Education Month

Well, it looks like we've closed the doors on what I believe was the best summer weather - at least as far back as I can remember. Simply glorious!!!! I have full expectations and hopes it will continue well into the fall.

As I write this, it's the beginning of a new school year. We've returned from our summer break of fun and relaxation with a new commitment to become more organized, and make plans for what lies ahead. Many of us have made new commitments to join clubs, gyms, and sports teams, volunteer or generally refill our calendars that have been empty for many weeks. Sadly, it's time to get back at it!

I know you all have busy lives, nevertheless I think it's important, (especially given October is Investor Education Month) to offer some educational material in this edition of InTouch.



### On gifting to your child

Firstly, several of you have kids and grandkids struggling to purchase their first home. Homes are expensive today. Unfortunately, as the rise in home prices has accelerated, incomes have been stagnating for the better part of the past three decades. Additionally, the job market has been extremely tough for our youth. In conversations I've had with many of you over the years, I understand your desire to want to lend a hand. It's because of these conversations that I've included an educational piece on "Gifting a Home to a Child", with hopes it will assist you with understanding the ramifications and making this very personal decision.

### On income taxes

It seems like we just finished filing our taxes however, the year is three quarters over and NOW is the time to review your income and consider how best to reduce your tax liability before the year comes to a close. The "Simple Ways To Save Tax" article highlights basic strategies you can review for your personal state of affairs while you still have time to make changes.

It's always a sad time (for me anyways) to say goodbye to summer. Having said that, I'm now eagerly anticipating the beautiful colours that come with the arrival of fall.

Sincerely,

**Wendy Strub**

## Gifting a Home to a Child

As housing prices in many major metropolitan areas continue to rise, home ownership is becoming increasingly difficult for the younger generation. As such, some parents and grandparents may consider helping their children with the purchase of a home or condominium.

### Considerations

Two important considerations when supporting the funding of a property are the future tax implications (should the property be sold at a later time) and protecting the asset from the potential claims of others in the event of changes in family structure. These factors may impact the way in which you support the purchase.

- **Potential Future Taxes** – If the home is not designated as a “principal residence”, there may be significant future tax consequences since the owner must pay income tax on any capital gains realized upon its sale. In provinces in which probate tax applies, the property may be subject to further tax upon the death of the owner.
- **Family Law** – If the child is married or in a common-law relationship, there may be concern with what will happen to the property in the event that the couple splits. Depending on how the transaction is structured, the asset may be protected from “equalization.” As family law can vary by province of residence, legal assistance should be sought in the province in which the child resides.

### Potential Options

There are a variety of ways to fund a potential property purchase. Here are some ideas:

**Purchase the property in your name** – Allowing your child to use the property but keeping it in your name may avoid potential family law issues. However, if you own another property in your or your spouse’s name, capital gains tax will eventually be paid upon the disposition of one of the properties since a family unit (you, your spouse/common-law partner and any minor children) can designate only one property as a principal residence.

**Gift cash to the child to purchase property** – As there is no gift tax in Canada, giving cash to your adult child to purchase a property will have no tax implications. The child may also be able to use his/her principal residence exemption upon the eventual sale of the property. However, in the event of the child’s marital breakdown, his/her spouse may end up receiving half of the value of the property.

**Lend funds to the child to purchase property** – Providing your child with an interest-free loan/mortgage (the loan may bear interest, but you may be subject to tax on the annual interest amount) may allow your child to claim his/her principal residence exemption on the disposition of the property and may provide better protection under family law legislation as the mortgage liability would reduce net family assets. However, without proper planning, you may be subject to probate tax in provinces where applicable on the amount of the mortgage if the mortgage remains outstanding upon your death.

**Gift funds to a trust that purchases the home** – Although this can be complex, it may be an effective way to share wealth among various beneficiaries while avoiding potential tax and family law issues. Parents may retain legal control over the property as the trustee, while the child is the beneficiary of the trust. If the beneficiary, his/her spouse and minor children do not have another residence, the trust may be able to claim the principal residence exemption to avoid tax upon a sale.

### Seek Assistance

As always, we recommend seeking professional advice if you are considering options for assisting your child in purchasing a home. A tax professional and a family law expert can help to map out the best options for your particular situation.



## Simple Ways to Save Tax

Now is the perfect time to be proactive and consider some simple tips to reduce your future tax bill.

- **Maximize RRSP contributions** – Repeated all too often perhaps, but this is still one of the best tax shelters for most Canadians. Get an immediate deduction and defer tax on investment returns until retirement.
- **Shelter investment income from tax** – If you earn investment income personally, consider maximizing contributions to your Tax-Free Savings Account (TFSA). Unlike Registered Retirement Savings Plan (RRSP) contributions, TFSA contributions are not deductible for tax purposes; however, income earned in the account accumulates tax-free and is not subject to tax when withdrawn.
- **Combine saving with learning** – Registered Education Savings Plans (RESPs) are a great way to income split with your children and/or grandchildren while providing the gift of higher education. Contributions to the plan are not eligible for a tax deduction; however, income accumulates tax-free in the account, the government matches a portion of your contributions (in effect providing a guaranteed return on your investment), and the income earned and grants received in the account will be taxed in your child's or grandchild's hands (presumably at a lower marginal tax rate) when distributed to him/her.
- **Make your interest tax deductible** – Interest paid on loans used to earn income from investments is deductible for tax purposes. As a result, to the extent possible consider restructuring your debt obligations to ensure that your interest expense becomes tax deductible.
- **Make your portfolios tax efficient** – When reviewing your portfolio structure, it is important to understand how different forms of income are taxed. Interest income and foreign dividends are subject to the highest rate of tax, capital gains are subject to the lowest rate of tax and Canadian dividend income falls in the middle (except in provinces/territories

where the effective tax rate on Canadian dividend income is less than the effective tax rate on capital gains). From a tax perspective only, it may be more efficient to hold interest-producing investments in tax-deferred or tax-free accounts (i.e., RRSP and TFSA) and investments intended to produce capital gains in non-registered accounts.

- **Match capital losses with capital gains** – In situations where you have unrealized personal capital losses and your spouse or holding company has unrealized capital gains (or vice versa), various planning techniques may be available to offset the capital gains with the available capital losses in order to minimize taxes.
- **Make (efficient) donations** – Charitable donations can provide valuable tax credits. Your gifting can be even more tax efficient by donating marketable securities with accrued gains to the charity instead of cash, as the resulting capital gain is not subject to tax.
- **Income-split with family members** – If you are subject to tax at the highest marginal tax rate, you may consider using a family trust or a prescribed rate investment loan to split income with a spouse or children who are subject to lower marginal tax rates.
- **Seek credit** – There continue to be many changes to tax legislation, so be aware of the tax credits available to see if they apply to you in the current or future tax years. For example, you may wish to enroll your children in eligible fitness programs if you haven't already done so, to take advantage of the children's fitness tax credit. Other tax credits may be available for expenses relating to public transit or for allowable medical expenses for dependents, as examples.

“Registered Education Savings Plans (RESPs) are a great way to income split with your children and/or grandchildren while providing the gift of higher education.”





## Wendy Strub Wealth Management Advisory Team

### Wendy Strub

A respected presence in Kitchener-Waterloo's investment community for over 30 years, Wendy Strub has helped many families and businesses benefit from her broad knowledge of the investment industry. She holds a full range of professional securities licenses and is an avid follower of long term trends, demographics, and the effects of the Baby Boomer bulge. Her areas of specialization include Early Retirement & Severance situations, Commuted Pensions, Strategic Tax & Estate Planning, Inheritances, North American Equities, Fixed Income, and Mutual Funds. She is ardent about managing relationships and regularly gives the gift of time (our most valuable asset) to those important to her.

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### Lori Hill

Lori Hill has worked in the investment industry since 1988, through several market and economic cycles. This experience provides a level of depth and continuity that is rare in the industry. Her strong, yet simple philosophy — Putting Clients First has earned her trust and respect in our community. Lori is a serial connector and a passionate cause marketer. With enthusiasm for health and longevity, she's helping to evolve the wellness conversation as a Certified Pilates Instructor.

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### Cathy Kehayas

Our advisor team is complemented by an experienced Executive Assistant with 25 years in the financial services industry. Cathy Kehayas provides support for client service, order execution, retirement planning, and general administration. For over 12 years, she has been a licensed investment representative and an integral team member serving our clients. Cathy enjoys travel, beaches, fine wine and cooking for her amazing family. In the spring and summer months you will find her creative juices flowing outside working in the garden.

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