Change: The Only Constant

Change has always been inevitable, but as a result of the pandemic it may feel particularly unprecedented. Covid-19 has created a rapidly changing environment, ushering in a new era of digitization, deglobalization and debt.

Technology continues to drive the speed of change. While it has helped to keep economies from completely shutting down during the pandemic, it has also changed the way many of us live, adapting work and play to the confines of our homes.

Covid-19 has also accelerated the trend towards deglobalization, exposing nations’ over-dependence on global supply chains. Over the summer, the U.S. continued to take actions to protect its national interests, reimposing tariffs on Canadian aluminum and instigating further trade tensions with China.

In order to support economies, the world has become substantially levered. Debt can be helpful when used to finance productive assets and generate new wealth to help economies grow. But problems can arise when debt becomes overextended. While stimulus efforts have helped to support economies and asset prices, the longer-term effects are yet to be seen. How will economies acclimate to significant levels of debt as these efforts wind down?

For many investors, today’s concerns are likely different than those of early spring. The rebound of equity markets after the March lows created a disconnect between equity market performance and what was happening on the ground. What will drive economic recovery going forward?

Given the continuing uncertainty, gold has hit all-time highs. South of the border, the value of the U.S. dollar has been falling. U.S. containment efforts have been slower than expected, hampered by social and civil unrest. With just weeks until the presidential election, all eyes will be on the U.S. as a change in leadership may be imminent.

During periods of extreme change, it is more important than ever to take advantage of professional advice in managing financial assets. Investing requires shifting gears on a continuous basis, particularly in assessing new situations. Fast-moving market dynamics can mean additional risks, so careful review and monitoring of investments is vital.

Balancing portfolio exposure to account for the many risk factors and potential economic outcomes can ensure that investing for the long term remains a profitable strategy.

Change will always be a certainty. We continue to harness these inevitable changes so that your investments continue to work for you.

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Think Now About Year-End Tax Planning

Don’t look now, but the end of 2020 is quickly approaching. With only months left in the year, now may be a great time to be thinking about taking certain actions before year end to save on your 2020 taxes. Here are some ideas to start the thinking process:

**Realize capital losses to offset capital gains.** Consider realizing capital losses to offset realized capital gains for 2020, or take advantage of the carry-back rules to recover taxes paid on taxable capital gains realized in three preceding taxation years. See page 3 for more details and please get in touch well before the end of the year to take into account the transaction settlement period.

**Split income, save tax!** There are various ways to split income. For example, you may pay reasonable salaries to spouses for services provided to your self-employed business or private company. You may elect to split eligible pension income with a spouse on your tax return. With interest rates at low levels, income splitting with a spouse may also be achieved by way of a prescribed rate loan. A tax advisor can provide the best options available to you.

**Contribute to your RRSP.** Why wait until the last moment if you are planning to make Registered Retirement Savings Plan (RRSP) contributions for the 2020 year? Remember, you will still be able to contribute until 60 days after the calendar year to impact 2020 taxes. Make RESP contributions to take advantage of grants. If you have a Registered Education Savings Plan (RESP), consider making a contribution before year end. While this won’t impact your 2020 taxes, you may benefit from the Canada Education Savings Grant for 2020.

**Consider giving through charitable donations.** Make eligible charitable donations before December 31st to benefit your 2020 taxes. Remember that gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for its fair market value, but also eliminates the associated capital gains tax.

**Convert your RRSP if you turned 71 in 2020.** If you turned 71 this year, make sure to collapse your RRSP. Consider also making a final RRSP contribution, as this must be done by the end of the year and not the usual March 1, 2021 deadline.

**Take advantage of the Pension Income Tax Credit.** If you’re at least 65 years of age and don’t have eligible pension income, consider purchasing an annuity or opening a small Registered Retirement Income Fund before year end to claim the federal pension income tax credit. Eligible pension income may also be split with a spouse on a tax return.

Tax planning continues to be an important part of investing. Many of these actions require planning ahead, so don’t wait until it’s too late. For further assistance, please contact us and, as always, seek advice from a tax professional.

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**ESTATE PLANNING**

**The Role of the Executor: A Large One**

Have you been named as an executor/estate representative/liquidator/estate trustee of someone’s estate? If so, you have been entrusted with a very important role.

Most people are honoured to be named as executor, as it signifies respect and trust in their abilities. However, oftentimes people do not realize just how much responsibility is involved. As such, here are a few things to keep in mind:

**It is time consuming.** Settling an estate generally takes about 18 months on average, but some estates may take several years to settle depending on complexity. The scope of an executor’s duties may be wide, including arranging the funeral, finding, itemizing or even managing the estate’s assets, applying for probate (in provinces where applicable), calling financial institutions to notify them of the death, filing income tax returns, liquidating or distributing assets as directed by the will, and more. The role may also involve visits to various financial institutions, as well as meetings with accountants, lawyers and perhaps even creditors and beneficiaries.

**There are legal implications.** As an executor, you may be held personally liable for any losses caused or errors made as you settle the estate. As an example, if the estate’s assets were distributed prior to the estate’s taxes being paid to the Canada Revenue Agency, the executor could be held personally liable for the balance of taxes due.

**You may be required to manage conflict.** Even within the most harmonious of families, conflicts can emerge as an estate is settled. Often there are conflicts between executors and beneficiaries. Decisions will need to be made and the involved parties may not always agree, even if the executor acts without bias.

**Your place of residence may have consequences.** There may be complications to the estate if you, as executor, and the estate reside in different jurisdictions. For example, if you were appointed as the executor of the estate of a person living in Canada, but you decided to become a non-resident of Canada, the estate may also become a non-resident of Canada. This could trigger negative tax consequences. Executors residing in a different province than the jurisdiction of the estate may also face challenges such as being required to post an estate administration bond.

**Seek Advice**

If you have been appointed as an executor and want to learn more, or if you would like an introduction to an estate planning specialist to discuss your situation, please get in touch.
TAX-PLANNING TACTICS

Offsetting Capital Gains Through Tax-Loss Selling

As the end of the year quickly approaches, some investors may consider realizing gains or losses by selling securities to rebalance their portfolios. As capital gains are subject to tax, one of the more common ways to offset this tax is to use available capital losses. Here is a reminder on how using losses to offset capital gains may be an opportunity from a tax perspective.

In general, when you sell an investment, you must calculate the gain or loss, which is the difference between the proceeds from the sale and the adjusted cost base. For tax purposes, the taxable capital gain (or net capital loss) is 50 percent of the total capital gains (or losses). A net capital loss cannot be used to offset other income in the current year. It may be carried back to one or more of the last three taxation years to recover capital gains taxes previously paid and/or carried forward indefinitely to reduce these taxes in the future.

Don’t Forget the Superficial Loss Rules

When claiming a capital loss, be mindful of the superficial loss rules. In general, these rules will disallow a capital loss if property is repurchased within 30 days before/after the sale date and is still held on the 30th day after sale by you or an “affiliated person.” This includes a spouse (partner), a corporation controlled by you or a spouse, or a trust of which you or a spouse are a majority beneficiary (such as an RRSP or TFSA). Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased security. This means any benefit of the capital loss could only be obtained when the property is sold and then repurchased within 30 days before/after the sale date.

Other Considerations

Given U.S. dollar fluctuations over recent months and the impact on the value of the Canadian dollar, don’t forget the effects of currency changes on securities purchased in a foreign currency. A gain or loss may be larger or smaller than anticipated once the transaction is converted into Canadian dollars. Take, for example, a security purchased at US$100 in 2012 when the U.S. and Canadian dollars were at par. If it had fallen in price to US$80 and you were to sell 100 shares of the security, the capital loss would be US$2,000. However, if the exchange rate at the time of sale was US$1 = C$1.35, selling the shares for US$800 would yield C$1,040, resulting in a capital gain of C$800.

The Continuing Case for Diversification

Uncertainty has always played a common role in the financial markets. But as a result of Covid-19, the path forward may feel particularly uncertain. In these times, diversification remains an important element of portfolio construction. The chart (right) shows the performance of select asset classes/geographies over the past decade (in C$). Here are some observations, which provide the case for diversification:

- No single asset class consistently performs at the top over time. A diversified portfolio can give access to the best performing asset classes every year.
- As we have seen with Covid-19, industries, sectors and even entire asset classes can fall out of favour, and sometimes with little warning. Diversification can help to protect from the downturns that may affect asset classes at different times.
- There is often a large gap in performance between the best and worst performing asset class. Diversification helps to smooth out performance returns within a portfolio.
- Markets change, and so does your portfolio. This is why rebalancing on a periodic basis is important, to ensure your portfolio maintains its appropriate strategic asset allocation.

Annual Returns of Key Asset Classes, Best to Worst: 2010 to 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Canadian Equities</th>
<th>U.S. Bonds</th>
<th>EM Equities</th>
<th>Canadian Bonds</th>
<th>Global Bonds</th>
<th>U.S. Equities</th>
<th>Global Equities</th>
<th>Canadian Stocks</th>
<th>Global Stocks</th>
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<tbody>
<tr>
<td>2010</td>
<td>17.19%</td>
<td>5.62%</td>
<td>12.77%</td>
<td>7.74%</td>
<td>8.85%</td>
<td>4.58%</td>
<td>13.31%</td>
<td>3.79%</td>
<td>3.72%</td>
</tr>
<tr>
<td>2011</td>
<td>15.25%</td>
<td>4.08%</td>
<td>11.43%</td>
<td>5.29%</td>
<td>6.06%</td>
<td>4.23%</td>
<td>12.07%</td>
<td>3.30%</td>
<td>3.17%</td>
</tr>
<tr>
<td>2012</td>
<td>10.59%</td>
<td>2.70%</td>
<td>8.04%</td>
<td>6.62%</td>
<td>6.39%</td>
<td>3.81%</td>
<td>9.56%</td>
<td>3.03%</td>
<td>2.87%</td>
</tr>
<tr>
<td>2013</td>
<td>7.81%</td>
<td>2.47%</td>
<td>6.56%</td>
<td>5.90%</td>
<td>6.30%</td>
<td>3.57%</td>
<td>8.17%</td>
<td>2.73%</td>
<td>2.52%</td>
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<tr>
<td>2014</td>
<td>5.80%</td>
<td>2.24%</td>
<td>5.37%</td>
<td>5.45%</td>
<td>6.34%</td>
<td>3.31%</td>
<td>7.06%</td>
<td>2.45%</td>
<td>2.16%</td>
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<td>2015</td>
<td>5.50%</td>
<td>1.99%</td>
<td>4.84%</td>
<td>5.28%</td>
<td>6.14%</td>
<td>3.11%</td>
<td>6.77%</td>
<td>2.17%</td>
<td>1.83%</td>
</tr>
<tr>
<td>2016</td>
<td>4.37%</td>
<td>1.75%</td>
<td>4.19%</td>
<td>4.83%</td>
<td>6.03%</td>
<td>2.90%</td>
<td>6.46%</td>
<td>1.90%</td>
<td>1.50%</td>
</tr>
<tr>
<td>2017</td>
<td>4.50%</td>
<td>1.67%</td>
<td>4.01%</td>
<td>4.70%</td>
<td>5.87%</td>
<td>2.70%</td>
<td>6.15%</td>
<td>1.65%</td>
<td>1.23%</td>
</tr>
<tr>
<td>2018</td>
<td>5.40%</td>
<td>1.50%</td>
<td>3.94%</td>
<td>4.57%</td>
<td>5.72%</td>
<td>2.51%</td>
<td>5.86%</td>
<td>1.41%</td>
<td>1.01%</td>
</tr>
<tr>
<td>2019</td>
<td>5.40%</td>
<td>1.43%</td>
<td>3.84%</td>
<td>4.44%</td>
<td>5.55%</td>
<td>2.34%</td>
<td>5.58%</td>
<td>1.24%</td>
<td>0.80%</td>
</tr>
</tbody>
</table>


*Source: Canadian Asset Management Group Limited.*
Estate Planning: The Will is Not Enough

The health-related consequences of Covid-19 have prompted many to contemplate the importance of estate planning. While creating and updating a will is an essential part of planning for when we are no longer here, an area that is often overlooked is how things will be managed while we are alive but unable to provide direction.

Without properly documented instructions, there may be the potential for family disputes during stressful times. In some cases, a family may have to apply to the courts or have someone appointed as guardian to manage both personal care and property — a potentially lengthy and costly process.

As such, the following should be considered in addition to having a will in place:

**Power of Attorney for Personal Care and Property** — Do you have a plan in place to support you in the event you are unable to speak for yourself? One of the most important aspects of planning for incapacity is to identify substitute decision makers you trust to make financial and/or healthcare decisions on your behalf. They are often called an “attorney.” Having this document in place generally allows the attorney(s) to make decisions if you cannot act for yourself. Generally, you are able to appoint a different attorney for Power of Attorney for Personal Care and Power of Attorney for Property.

**Advanced Directive** — What kind of care would you want to receive if you were unable to communicate? Our current crisis has led to the question of whether an individual would want to use a ventilator for life support. In provinces where applicable, this document provides specific medical or lifestyle decisions to clearly indicate your wishes and provide guidance to your substitute decision maker.

**Other Considerations**

Beyond a will and Power of Attorney documents, there may be other documentation to consider: Beneficiary designations for registered plans and beneficiaries of life insurance should be kept updated and revisited from time to time. The arrangement of assets, such as the use of joint ownership with rights of survivorship, may also be a consideration as, depending on the circumstances, it may help with the transfer of assets.

Estate planning goes well beyond a will. As estate planning is governed by provincial legislation, it is important to consult local legal and estate planning experts to ensure your will and Power of Attorney documents reflect your intentions.

Notes: 1. The name, terms and conditions of the Power of Attorney document vary by province (e.g. known as a mandatary in Quebec); 2. In Quebec, the designation may have to be done using a will; 3. Not applicable in Quebec.