

MacDougall Wealth Management Group Newsletter



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Beware of the TFSA 'Danger Zone'

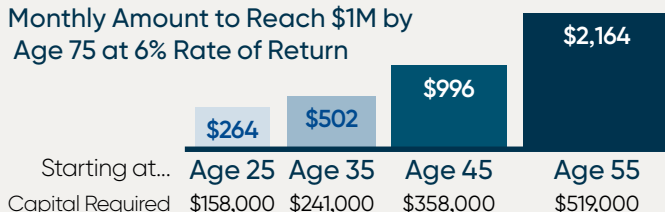
The first four months of the year have been referred to as a 'danger zone' for those relying on TFSA contribution room data posted on their CRA account. If you've based your TFSA contributions on "My Account" information, be aware that it may not be accurate. According to the CRA, contributions or withdrawals made in the previous year may not be reflected in the current year's contribution room until "after the end of February," as issuers have until the final day of February to submit TFSA transactions to the CRA. However, the lag in updating data could extend to March or even late April.

This is important to prevent penalty charges on excess TFSA contributions, which are assessed at one percent per month on any excess amounts. Over the past few years, the penalties have been significantly increasing. In 2022, the total paid in overcontribution penalties was \$132.6 million, over triple the amount paid in 2019.¹

Don't Procrastinate, Participate! The Benefits of Starting Early

Here is one perspective on the benefits of investing at an earlier age. It shows the monthly investment needed to accumulate \$1M by age 75, based on an annual return of 6 percent.

Monthly Amount to Reach \$1M by Age 75 at 6% Rate of Return



Note: Compounded monthly, with taxes & expenses ignored. For illustrative purposes only.

What is driving this increase? There may be various reasons. The lag in CRA reporting times can often create confusion. Some hold multiple TFSA accounts, increasing the likelihood of recordkeeping errors – recent statistics suggest that 245,000 TFSA holders have between five and nine TFSA accounts!¹ As well, there may simply be a misunderstanding of the rules. For instance, when TFSA funds are withdrawn, remember that they only become available for contribution at the beginning of the following calendar year.

Ultimately, it is the taxpayer's responsibility to maintain accurate records. If you rely on CRA contribution room information, a general guideline is to wait until late April when all records should be updated.

¹ <https://www.theglobeandmail.com/investing/personal-finance/article-people-keep-making-this-costly-tfsa-mistake-and-paying-penalties/>

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The Impact of Taxes on Investments Can Be Significant Over Time

This is the season when many of us are busy preparing income tax returns, perhaps a good time to reflect on the taxes we pay in investing. Just as investments benefit from compounded growth over time, the tax on income and gains can accumulate to become significant.

First, recall the different ways that investment income is taxed in non-registered accounts. Interest income is fully taxable at an investor's marginal rate. Capital gains are taxed at half of this rate since only half of a capital gain is taxable. Eligible dividend income from Canadian corporations generally attracts tax at a rate in between the two.

So how do different taxes impact returns over time? The table below illustrates four scenarios (A to D), each involving an investment of \$50,000 at Year 0 and an annual rate of return of 6 percent compounded over 25 years. In A and B, tax is paid each year at different rates based on the type of income earned:

How Different Taxes Can Affect After-Tax Values (Illustrative)

Year	A: Interest	B: Eligible Dividends	C: Capital Gains	D: TFSA
	Taxed Annually		Tax Deferred	No Taxation
Tax Rate	50.25%	35.02%	25.13%	—
0	\$50,000	\$50,000	\$50,000	\$50,000
1	51,492	51,949	53,000	53,000
5	57,921	60,537	66,911	66,911
10	67,098	73,295	89,542	89,542
15	77,728	88,741	119,828	119,828
20	90,042	107,442	160,357	160,357
25	104,307	130,084	214,594	214,594
After-Tax Value	104,307	130,084	173,239	214,594
Amount Paid in Tax	54,855	43,163	41,355	—
Difference (% of D)	49%	61%	81%	100%

Based on 6% annual growth. Tax rates are based on the average of 2023 combined federal, provincial and territorial personal marginal tax bracket at \$250,000 of ordinary income, eligible dividends or capital gains: 50.25%, 35.02% and 25.13%, respectively.

interest and dividends. In C, taxes are deferred so there is no annual tax, but tax is paid at year 25 when capital gains are realized. In D, there is no tax; funds grow in a TFSA. After 25 years, the difference in after-tax value is significant. As such, it is prudent to consider making investments more tax efficient where possible.

This includes ensuring that you maximize tax-advantaged accounts like TFSAs, RRSPs and others. Consider also the opportunity to consolidate accounts, to help optimize asset location across all of your accounts.

Certain types of investments may have tax-advantaged attributes. For instance, mutual funds, REITs, limited partnerships and others may provide return of capital (ROC) distributions that are not a taxable receipt. High-quality bonds trading at a discount provide income and a more favourably-taxed capital gains component.

Other tools may help to defer tax, such as an individual pension plan (IPP) to allow business owners/executives tax-deferred growth to build retirement income. Small business owners may consider using an estate freeze when succession planning to lock in the tax liability at death based on today's business value.

These are just a handful of ideas that may help to improve tax efficiency. For a comprehensive discussion, please call the office.

Reminder: Tax Treatment of GICs

With increased interest in Guaranteed Investment Certificates (GICs), remember that the associated tax liability must be reported on an annual basis for non-registered accounts. Many GICs are locked-in, meaning you can't cash them in until their maturity date. Yet, even if a GIC matures in a future tax year and interest has not yet been paid, the amount that has accrued in the tax year must be reported on a tax return. A T5 slip will be issued for amounts of \$50 or more.

Are You Associated With a "Bare Trust" Arrangement?

UPDATE: On March 28, 2024, the CRA announced that bare trusts will be exempt from new reporting requirements discussed in this article for the 2023 tax year, with further "clarification" to come.

Are you holding assets in an arrangement where there is a separate legal and beneficial owner, where the beneficial owner oversees the assets? You may be holding a "bare trust" arrangement and subject to new reporting rules.

What is a bare trust? According to the CRA, a bare trust "exists where a person, the trustee, is merely vested with the legal title to property and has no other duty to perform or responsibilities to carry out as trustee, in relation to the property vested in the trust."¹

Here are two examples where a bare trust arrangement may exist:

- › You have been added to the property title of an elderly parent to assist with estate planning, but the parent retains beneficial ownership/control.
- › As a parent, you have added your name to the title of an adult child's home to help the child qualify for financing.

New filing requirements. Bare trusts are now subject to reporting requirements that changed for trusts with taxation years ending after December 30, 2023. For most trusts, even if there is no income or activity to report, a T3 Trust Income Tax and Information Return must be filed within 90 days of the trust's tax year end. The good news is that since reporting rules were expanded to include bare trusts, the CRA will provide penalty relief if a T3 return hasn't been filed by the deadline. This relief applies only to bare trusts for the 2023 tax year.

Seek assistance. Since the intent of the arrangement can impact whether or not it is considered a bare trust, if you believe you may be associated with a bare trust arrangement, it's best to discuss your situation with a tax or legal expert to understand if you are subject to filing obligations. For more information: <https://www.canada.ca/en/revenue-agency/services/tax/trust-administrators/t3-return/new-trust-reporting-requirements-t3-filed-tax-years-ending-december-2023.html>

¹ <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/p-015/treatment-bare-trusts-under-excise-tax-act.html>. Note: This is not intended to be a comprehensive or legal discussion. Please seek the advice of tax and legal experts.

Growing Scams: Protect Yourself & Others From Phishing

As advisors, we continue to be dismayed by the increasing amount of financial fraud. Almost all of us have received email scams; increasingly, many clients are being targeted via mobile phones or social media.

According to the Canadian Centre for Cyber Security, “phishing” remains the number one technique used to steal data or infiltrate an individual’s network. This is where scammers call, text/SMS, email or connect via social media to trick victims into sharing sensitive information, providing funds or clicking a malicious link that contains malware that, once downloaded, can access a device’s information.

As such, we would like to remind you of some basic phishing situations. While these may be familiar, please pass along this article to those who may need support or use it as a basis for discussions with those more vulnerable, such as those less technologically savvy or those who may be isolated.

Phishing is often done through mass messaging that appears legitimate or from a trusted source. Here are some of the more common types of email scams, as well as actions to consider:

- › **Payments and Memberships** – These fool you into believing you have paid for a product or membership, often of substantial value, prompting you to respond. [Instead, consider checking your credit card statements to see if a charge has been made.](#)
- › **Expired Subscription** – A sense of urgency is created to renew an expired subscription, often using malicious links that collect your financial data. [Always access subscription information through the actual account using the company’s trusted website.](#)
- › **Shipment Confirmation** – These suggest you have a pending delivery, often requesting payment or guiding you to open a compromised link/attachment that contains malware. [If you make an online purchase, always track shipping through the confirmation provided by the vendor.](#)
- › **Sweepstakes Win** – These promise a prize, but often request you to send money or click a link to provide your information. [Ask the question: did I enter the sweepstakes? If not, it’s likely a scam.](#)

Phishing emails often use the actual logos of organizations to create legitimacy. However, a closer look may indicate that the source is fake:

- › **Doesn’t address the individual directly** (i.e., “Dear customer”)
- › **Contains spelling/grammar errors**
- › **Sender’s email address is generic** – always view the underlying email address/domain name to check legitimacy
- › **Sender requests personal/confidential information** or asks you to log in/click on a provided link – reputable companies never do so via email
- › **Sender makes an urgent request**, often with a deadline
- › **The offer sounds too good to be true**

For examples, please see: <https://www.getcybersafe.gc.ca/en/resources/real-examples-fake-emails>

If you are not certain if a message is legitimate, the best response is to not respond at all. Never share information with people you don’t know. Never click on links or download/open attachments on emails. And, never reply – even if you know the message is fake. Often, scams are generic mass messages; by responding, you’re confirming your number/email is active/valid and you’re likely to encounter more scams. In any situation where you may be uncertain, consider the approach of “take five, tell two” – take five minutes to pause; then tell two people, like a friend or neighbour, who can provide perspectives. If you have been a victim, report it at: <https://www.antifraudcentre-centreantifraude.ca/report-signalz-eng.htm> or <https://www.getcybersafe.gc.ca/en/blogs/reporting-spam-text-messages-7726>

Finally, remember that National Bank Financial – Wealth Management will never contact you via unsolicited email, text or phone call asking for sensitive information or account details. If you ever have concerns, contact the office.

Premium banking tailored for you

At National Bank, we have built our reputation on the quality of the relationships we forge with our clients. With the introduction of the Premium Banker role, we’re taking it to the next level. Our Premium Bankers work exclusively with National Bank Financial – Wealth Management to ensure that our clients can tap into our wide range of knowledge and enjoy a seamless, integrated approach to their finances.

Key Premium Banking services

With a consolidated and integrated approach to banking, your Premium Banker offers the following services:

- › **Administering and managing bank accounts**
- › **Mortgage solutions**
- › **Personal loans**
- › **Unsecured lines of credit**
- › **National Bank secured lines of credit**
- › **Credit cards**
- › **Cash Surrender value lending (CSV)**
- › **And more**



Women & Wealth: Navigating Shared Circumstances

Are there gender differences that impact the way we accumulate and manage wealth? In our experience, there is no “typical” woman investor. However, many women share certain circumstances that can present challenges to wealth accumulation:

- › **Longer Lifespans:** Women can anticipate outliving men. The average life expectancy for females is 84 years, compared to 80 years for males.¹ Assets may need to support a longer time span.
- › **Career Interruption:** Women are four times more likely than men to take on caregiving roles.² Many interrupt careers to care for children or elderly parents; some are faced with the dual demands of both. Reduced time in the workforce can impact wealth accumulation.
- › **Wage Disparity:** Women typically earn approximately 89 cents for every dollar earned by their male counterparts.³ Lower wages can lead to the accumulation of lower assets.

At some point, most women will be in charge of wealth. While there is a growing population of single Canadians, even those who are married may end up needing to manage finances as a result of divorce or widowhood. Today, there are nearly twice as many senior women living alone as there are men.⁴

Consider also that the wealth controlled by women is on an upward trajectory. By 2028, it is projected that women will oversee over \$4 trillion of assets, nearly double the \$2.2 trillion they currently control.⁵ This growth may be driven by increasing labour-market participation and higher rates of post-secondary education compared to men.⁶

We are committed to helping navigate the challenges shared by many women in the wealth planning process. We address these circumstances in many ways: Given wealth accumulation differences, it may be necessary to adopt a more aggressive savings plan to achieve comparable retirement outcomes. Those starting the investment journey later may need a different focus on strategic asset allocation to balance risk and return

1 Statistics Canada Table: 13-10-0114-01

2 <https://www.theglobeandmail.com/business/article-women-in-the-sandwich-generation-are-overworked-exhausted-and-missing/>

3 <https://www.cbc.ca/news/politics/pay-equity-legislation-1.6097263>

4 <https://www.cbc.ca/news/business/canadians-living-alone-single-statistics-canada-1.5045116>

5 <https://www.newswire.ca/news-releases/only-15-of-financial-advisors-in-canada-are-women-while-women-s-share-of-wealth-assets-expected-to-double-by-2028-841254590>

6 <https://www.statcan.gc.ca/01/en/plus/4823-women-labour-market-increased-potential-pay-and-participation>

considerations. We recognize the time pressures arising from managing multiple responsibilities, including work, household and caretaking duties. We are here to promote financial literacy, from engaging in financial discussions explained in understandable terms, to supporting activities like legacy planning. We can also help guide financial discussions with (grand)daughters, as we have many resources to support these important conversations.

Understanding these unique challenges, we are here to provide support in the pursuit of a healthy balance between wealth and life.

The “Swift” Effect: A Look at Forbes’ #5 Most Powerful Woman

Q: What has an estimated economic impact of more than \$5 billion,⁷ more than the GDP of 50 countries globally?

A: Taylor Swift

While most of us do not fit the typical fan demographic of a “Swiftie,” the sheer economic impact of Taylor Swift should make any head turn. Swift’s Eras Tour has achieved the status of the largest music tour in history, surpassing Elton John’s. When the tour arrives in Canada later this year, it has the potential to contribute an estimated \$800 million to GDP, based on the average concertgoer’s spend of US\$1,300.⁷

Swift’s rise to the fifth spot on Forbes’ Most Powerful Women list shouldn’t be overlooked. She joins prominent figures like ECB Head Christine Lagarde and U.S. Vice-President Kamala Harris. Beyond her profound economic impact, her business savvy is equally enviable. As a Forbes article recently noted, Swift “symbolizes a new era of power, influencing people and culture independent of any country or company.” Here are some of her accomplishments:

- › Took direct control over her business after rights to her recordings were sold in 2020 by rerecording albums that were part of the sale.
- › Achieved billionaire status in October 2023,⁸ joining Jay-Z and Rihanna – a rare breed of artists to hit ten-figure status.
- › Holds a “brand” coveted globally – if Swift were a corporation, her “net promoter score” would make her the fourth most admired brand globally, tied with Apple.⁹
- › Voted Time magazine’s 2023 Person of the Year.

7 <https://www.globenewswire.com/en/news-release/2023/06/08/2684710/0/en/Generating-5-billion-the-Taylor-Swift-The-Eras-Tour-has-an-Economic-Impact-Greater-than-50-Countries.html>

8 <https://www.bloomberg.com/graphics/2023-taylor-swift-net-worth-billionaire/>

9 <https://www.questionpro.com/research/taylor-swift-study/>; <https://www.forbes.com/sites/moiraforbes/2023/12/05/the-worlds-most-powerful-women-2023-are-women-key-to-solving-the-global-leadership-crisis/>

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