



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

'It's cryin' time again...you're gonna' leave me' (taxes)

We have dual citizen, US resident clients. They've typically emigrated to the US for job opportunities, doing very, very well by it. They would be in the top tax bracket in Canada. As they report to both jurisdictions we get a front row seat on their decision making. Like many Americans, our US resident/dual citizen clients express frustration over US politics. Some say they dream of returning to Canada. A few have gotten serious and asked about the tax consequences of doing so. If they moved back to Canada, reported their income here, vs. in the US, how much tax would they pay? What income would they have to live on?

It's a grass roots example of how money decisions are made about coming to, or investing in, Canada. Other than residency, the following does not represent an actual client's situation.

Scenario. You live in Texas and are considering moving to BC:

- FOREX rate: \$75 cents \$USD per \$1 Canadian dollar.
- Texas resident filing US Federal and state taxes, single tax payer – no spouse.
- Annual income \$450,000 USD (\$600,000 Canadian)
- State Tax – 0%
- Federal tax rate: 32.1% = \$144,610
- After tax income \$305,390 US (\$407,186 \$CDN).

You've paid income tax and now have \$305,000 \$US to spend. Let's assume you spend 90% of your income = \$275,000 and save 10% = \$30,500. Expenses could include paying mortgage principal and interest (no sales tax) buying certain services for which no sales tax applies. For simplicity let's assume all spending incurs sales tax and \$30,500 saved (no tax on savings)

- Texas State Sales tax= 6%
- Local sales tax (municipal) 2% max.
- Max combined sales tax 8.2%

Our Texas resident will pay a maximum of \$22,500 in sales taxes resulting in net purchasing power after all taxes of \$254,158 + \$30,500 = \$284,650 purchasing power (\$379,544 \$CDN)

Or....

They move to BC. Assuming same gross income of \$600,000 Canadian...

- BC resident filing CDN Federal and Prov taxes, single tax payer – no spouse.
- Annual income \$600,000 Canadian (\$450,000 USD)
- Combined Fed/Prov income tax – 46.1% = \$276,665 tax (\$207,500 US)
- After-tax income \$323,335 CDN (\$242,500 US)

Assuming the same expenditure and savings rates, our newly arrived Canadian is spending \$291,000 and saving \$32,335. BC's Combined Federal and Provincial Sales taxes are 12%. They acquire \$259,821 of goods + 32,335 savings = **\$292,156 \$CDN purchasing power** (\$229,117 US equivalent). Texas shows **\$379,544 Canadian purchasing power** = +\$87,388 per year 30%. A cool million over 11.4 years.

Canadian goods are generally more expensive. Texas car insurance for single 55-year-old is around \$750 US per year/ \$1,000 Canadian. In BC try \$1,600. In Texas regular gasoline costs \$3.08 per US gallon = \$1.08 per litre Canadian. Victoria regular gas is \$1.80 per liter. In Texas a McDonald's Big Mac costs \$5.85 Canadian. In Vancouver a Big Mac costs \$6.19. In Houston, a six-can pack of Budweiser is \$11.98 \$CDN. BC Liquor store shows \$14.35.

On a pure 'what do I get' comparison, a dollar goes a lot farther in Texas. Just ask Elon Musk. If purchasing power matters to Elon, it matters to our clients pondering this decision.

The flip side is Elon must live in Texas. He has enough money to buy the lifestyle he wishes. For the rest of us, health care, education, multi-culturalism, crime, politics, corruption, etc. must be considered. Texas and BC each have their charms and challenges. There is a certain Canadian disdain for high income earners. Some feel one can earn 'too much money'. We don't begrudge hockey player's million+ salaries, but 'Big Business' gets the hate-eye. Be careful with that high horse. Someone pays for the benefits we cherish. That someone is us. The more of "us" making and spending more money, the better. Don't chase 'em off!

Canada: Impressive January job gains start 2023 strongly – NBF HotCharts

The good news is more Canadians are working. The unemployment rate is at multi-year lows.

Canada : The labour market starts off 2023 with strength

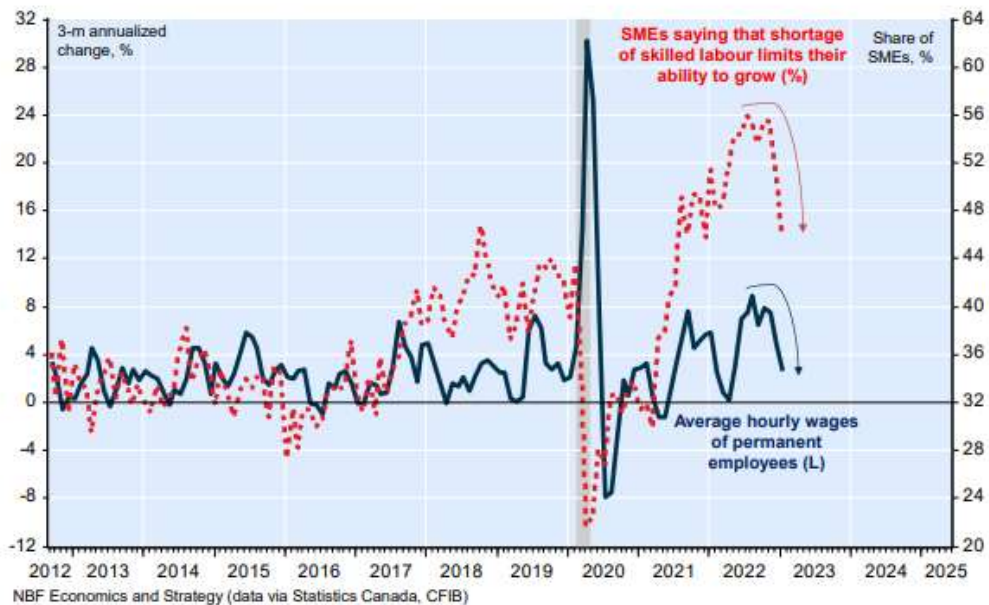
Employment level and unemployment rate



Meanwhile wage pressures are lower but still high. Good for workers. Bad for inflation and those same workers...eventually.

Canada : Wage pressures moderate

3-m ann. change in wages and small businesses saying that shortage of skilled labour limits their ability to grow



Full report here:

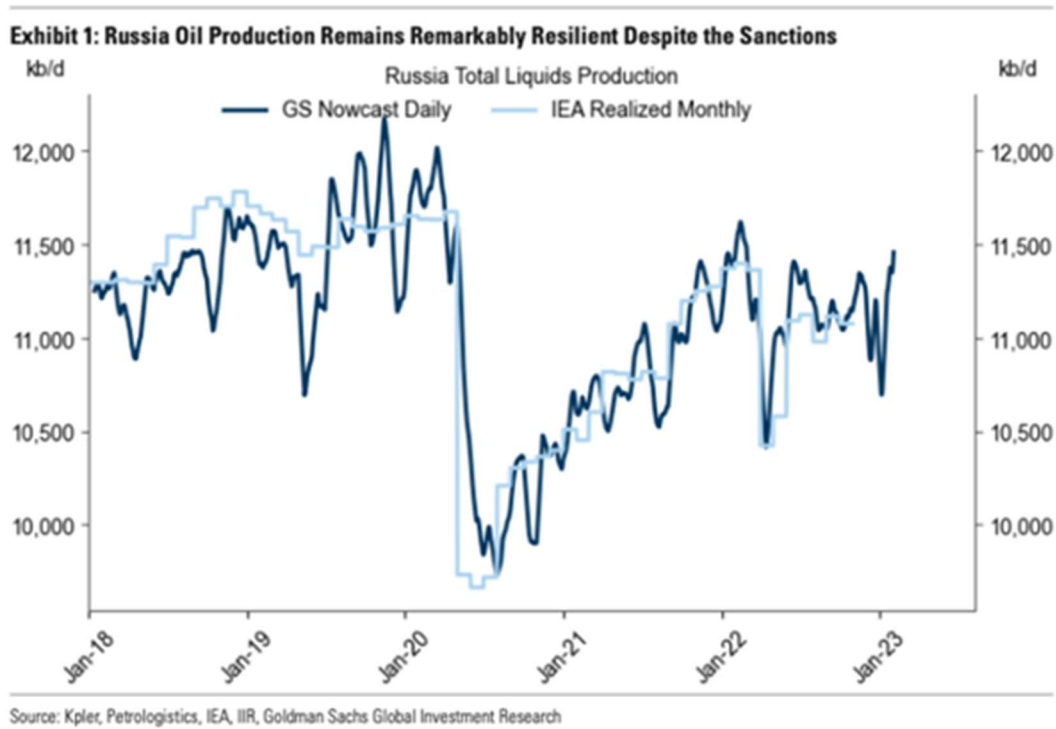
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NBF Economics thinks the S&P may have gotten ahead of itself

S&P 500: An outsized market rebound – NBF Hotcharts Feb 6, 2023

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=ca187480-d293-4eae-9f3b-d73af2113f36&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

Moving on to energy. Russia continues to sell crude.



Ship-to-ship loadings of Russian Urals oil hit record in Mediterranean in January - Reuters

“MOSCOW, Feb 7 (Reuters) - Ship-to-ship (STS) loadings of Russian Urals blend crude oil hit a record high in January in the Mediterranean as traders moved cargos onto larger vessels to make long-haul shipments to Asia more cost effective, Refinitiv Eikon data showed.

Since the European Union banned purchases of Russian sea-borne oil in December over Moscow’s actions in Ukraine, the bulk of Russian oil has been diverted to Asia.

STS operations involve the transfer of cargo in international waters from smaller to larger vessels, improving the profitability of long-haul trips. According to Refinitiv Eikon and Reuters

calculations, STS volumes in the Mediterranean for deliveries to Asia jumped eight-fold in January from December to a record-high of 1.7 million tonnes.”

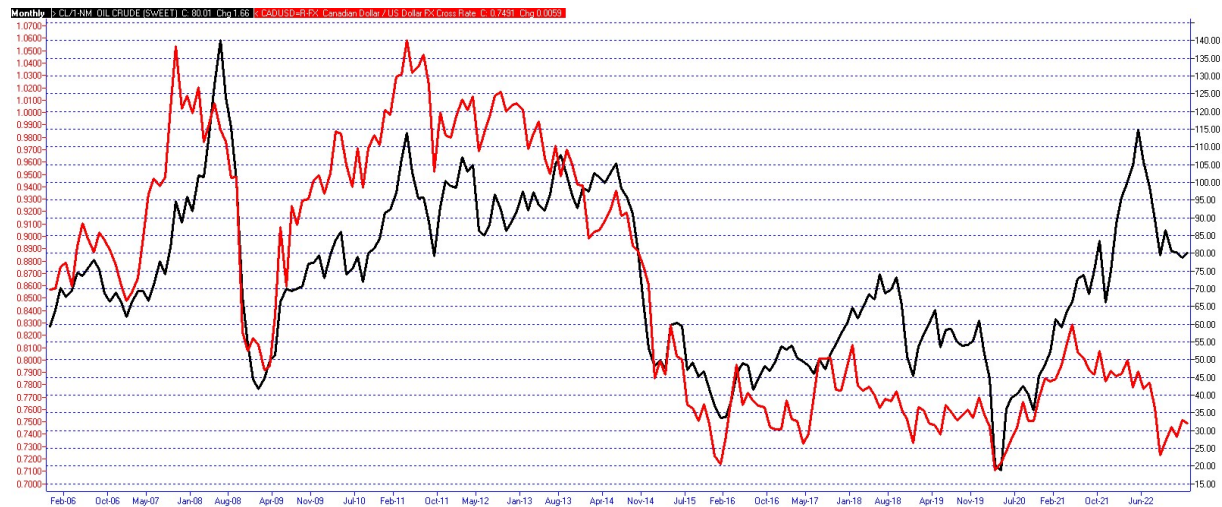
<https://www.reuters.com/article/russia-oil-exportflows/ship-to-ship-loadings-of-russian-urals-oil-hit-record-in-med-in-january-data-idUKL8N34N31P>

The world has (supposedly) turned it’s back on Russian crude oil and refined fuel products. SE Asian countries have been importing record amounts of Russian crude. Not just China. India, Indonesia and Malaysia have been importing record Russian-sourced refined hydrocarbon fuels well in excess of historical internal consumption. Suddenly, they’ve also increased exports of refined products well in excess of historical norms. Gee Whiz. I wonder if there’s a maybe a risk-free price arbitrage between imported fuel and exported fuel. They must have suddenly discovered a mystic refining process that generates internal excess supply. And where does that excess SE refined fuel product supply go you ask?

The Netherlands is the top destination for India’s refined fuels.

<https://www.livemint.com/news/world/us-among-top-buyers-of-indian-refined-petroleum-products-11673374474075.html>

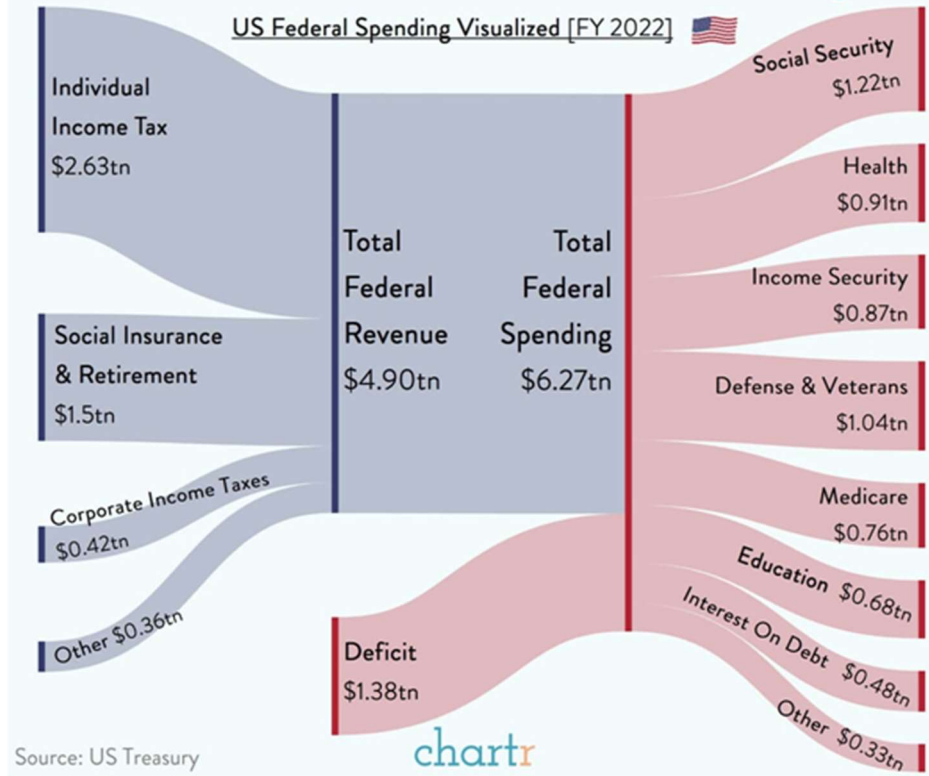
Loonie (red) vs WTI Crude (black) 2006-2023 monthly ranges



Historically the Loonie has tracked US dollar crude oil prices. The crash in oil meant the Loonies’ decline from 2011 to 2015 was unsurprising. Since the lows however the Loonie has not rebounded like history says it should. With WTI crude around \$80 the Loonie should be closer to 90 cents US not under 75 cents or 20%. It is below the ‘normal’ range. Recalling the above Canadian GDP number close to \$2 Trillion, 20% or \$400 billion is missing. Why did the Loonie begin deviating from the WTI correlation in late 2015 and why has the deviation widened? Why has money has stopped flowing in? I’m not a political animal and don’t have a political party affiliation but the charts don’t lie. Canadians voted for change in 2015 and they got it. The good news is I suspect this can’t last. I believe we’re nearing a period of sharp upward revaluation of Canadian assets. At some point bargain hunters are followed by a Tsunami of cash. Speaking of which....



State Of The Union: Visualizing The Government's 2022 Budget



<https://read.chartr.co/newsletters/2023/2/8/i-o-u>

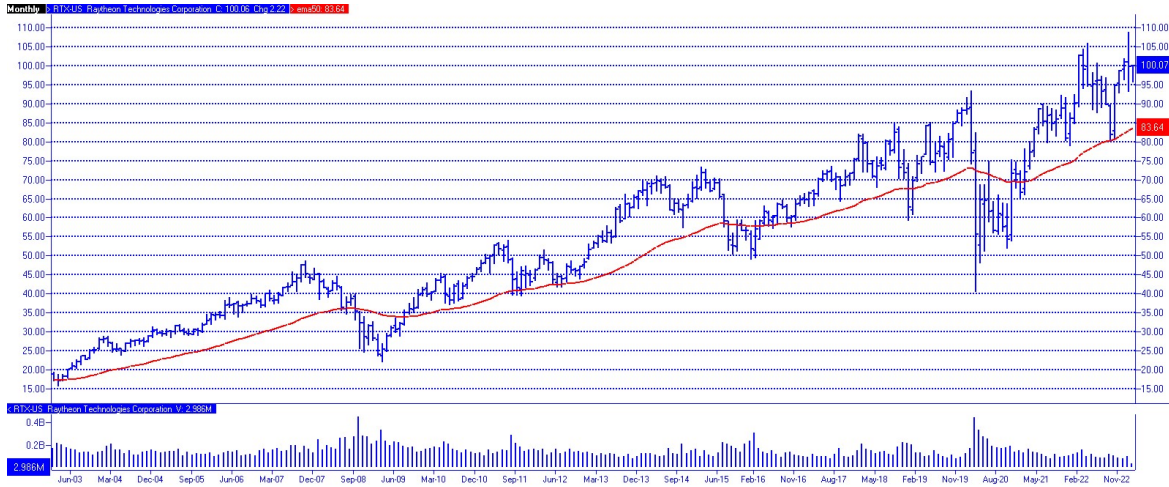
Comparing the above US Federal Budget split out to Canada's is interesting.

At first blush it seems the US spends more on defense than it does on Medicare (Health and Medicare combined are the largest line items). This will be talking point on both sides of the border and both sides of the political aisle. Recall that US military veteran's pensions, disability benefits and medical costs are included in the 'Defense' budget. In 2021 that component totaled \$234 billion or roughly ¼ of the defense budget, leaving \$770 million for Bullets and Bombs. Social Security is the largest US Fed Govt line item. No, the US doesn't spend more on bullets than it does on band-aids. At over \$770 billion USD (over \$1 Trillion Canadian) defense spending, the US remains far and away the globe's largest spender on defence. We've been looking at US defense contractor stocks.

We own **Raytheon (RTX-US-\$100.14)**. We pounced on United Technologies (UTX) in March/2020 during the COVID -19 panic crash. We liked their combo of civic and military aviation on the cheap. UTX merged with Raytheon, spun off Carrier and Otis leaving Raytheon common in our portfolios. It's been rewarding. We expect more profits to come. The reasons why make my heart ache.



Raytheon Technologies Corp (RTX-NYSE-\$100.06) 20 years – monthly ranges



DISCLOSURE: I hold Raytheon personally, for family members and for client accounts over which I have trading authority. We have traded in the security over the past 60 days.



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Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Feb 10, 2023

DOW INDUSTRIALS:	33,830
S&P 500:	4,083
S&P/TSX COMP:	20607
WTI:	\$80.03
LOONIE IN \$USD:	\$0.7491 \$US

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