MARKET COMMENTARY

Graham Burns, CIM, FCSI
Senior Vice President, PCG
Portfolio Manager & Financial Advisor
graham.burns@raymondjames.ca

Teresa Turner
Sales Assistant (Licensed)
teresa.turner@raymondjames.ca

Raymond James Ltd.

Suite 500 – 1726 Dolphin Avenue
Kelowna B.C., V1Y 9R9

Phone: (250) 979-3060
Toll Free: 1-844-979-3060

"Tax me I'm Canadian" Mark Milke

The title of this newsletter comes from the title of a book written by Mark Milke. Mark is a senior fellow with the Fraser Institute; former provincial director with the Canadian Taxpayer's Federation and has produced many books and studies on taxation in Canada.

Tax strategies are particularly important to me as I advise my clientele on tax efficiencies in their investing and estate planning. I am therefore watching for the outcomes of the recently proposed personal income tax changes in Canada.

You might be interested to know the following information from the Canada Revenue Agency data for 2014 tax filings.

Canadian personal tax filers in 2014 (numbers are rounded up or down slightly)

1. 68% of filers reported income less than $50,000. They represented 32% of all earned income reported and paid 13% of all federal income taxes paid.

2. 23% of filers reported income between $50,000 and $100,000. They represented 35% of all earned income reported and paid 36% of federal income taxes paid.

3. 8% of filers reported income over $100,000. They represented 33% of all earned income reported and paid 52% of all federal income taxes paid.

Total filers were 27.5 million with 9.1 million paying no federal income tax.

The proposed changes currently being debated will affect the cohort of wage earners utilizing legitimate tax strategies to keep their annual personal incomes below $100,000. The removal of those strategies would accomplish a migration of taxpayers from cohort "two" to cohort "three". It is ironic that the cohort most affected by the proposed changes will be cohort two which is the "middle income" group the change is purported to benefit.

"The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing"

- Jean Baptiste Colbert, controller general to Louis XIV.

The cohorts with an annual income below $50,000 do not need to utilize tax strategies to reduce their income and the groups with incomes in excess of $100,000 may have tax strategies in place but are already paying at the high rate. The impact will be felt mostly then on only a portion of the middle income group.

In the meantime portfolio's still need to be managed to optimize returns in a tax effective manner. Utilizing registered accounts to generate tax free and tax deferred growth is a clear advantage.

Estate planning utilizing tax sheltered insurance strategies will be a solution for holding companies and professional companies generating disposable income to fund the policies subject to the final legislation.

Allocating assets to reduce or defer taxable income which may mean adjusting risk profiles of portfolios will be an option for some if managed appropriately.

Gifting strategies to allocate income portfolios in the hands of lower income family members may also become popular.

There are numerous examples in history where higher tax rates do not necessarily result in higher revenue generation for government as income earners adjust to new tax policy.

We will see the results of the government's consultative analysis over the next few weeks with the finalization of their proposal. That's when we'll roll up our sleeves to determine the effect on the various income levels and determine options available to optimize tax efficiency. The premise of Mark Milke's book, Tax me I'm Canadian!, is not to increase government revenue through taxation but rather to encourage more effective use of our tax dollars in its allocation and management. I recommend it as a good primer on tax policy with good examples of effective tax management.

Capital Markets

The Bank of Canada has finally begun to raise interest rates. The good news is the hikes are for the right reasons, normalizing rates as a result of consistent economic growth. The rising rates have been beneficial for the valuation of floating or reset rate products (reset preferred shares for example). Growth in the U.S. should continue to support our economy resulting in slowly rising interest rates along with continued growth in stock prices. The Toronto Stock Index will continue to rise supported by sectors and individual companies that benefit from the expansion phase of the business cycle. Jim O'Donnel, the founder of Mackenzie Financial, used to say "buy things you can't lift" at this stage in the cycle, in other words the building blocks of the economy. I would add companies that also benefit from gradually rising interest rates.

The fundamentals of an expanding global economy are intact and steadily improving. I still like adjustable rate debt, short term bonds and quality dividend paying shares of companies with advantages in a growth economy.

As always, thank you for your business and enjoy the Thanksgiving holiday.

Please call with any comments or questions you may have.

All the best,
Graham Burns