PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

Summer 2022 - 1st Edition

When Your Executor Resides out of Province

When choosing an executor (or "liquidator" in Quebec), there are many factors you will want to consider. One important factor is where the executor resides. If you choose an executor who resides in a different province from you and your estate, there may be additional practical and legal hurdles involved in the estate administration. This is particularly so if the executor resides outside of Canada.

Estate Administration Bond

An estate administration bond is a sum of money that must be paid into court by the executor as assurance that the executor will properly administer the estate in accordance with the Will and the laws of the province. It also acts as a surety that the executor will pay all claims and debts owed by the estate throughout the course of the administration.

In many circumstances, out-of-province executors will be required to post a bond before a provincial court will issue a grant of probate. This is because it is difficult for a creditor or claimant of an estate to pursue an executor who resides in another jurisdiction in the event that the executor mismanages the administration of the deceased's estate.

The amount of the estate bond required may vary by province. In Ontario, for example, it is common for a court to require a bond equal to twice the estimated value of the estate. An executor may be able to obtain a bond from an insurance company offering this type of service. However, there is no guarantee that the executor will qualify for this bond and the premiums create additional cost to the estate.

Estate Tax Residency

When an individual passes away, their estate becomes a taxpayer in its own right. For tax purposes, an estate is considered "resident" wherever the executor resides.

Tax residency becomes a particular issue when the executor resides outside of Canada. The estate will no longer be considered resident in Canada and will therefore lose out on very favourable tax treatment available to Canadian resident estates. In addition, the estate may be subject to taxation in the country where the executor resides. Finally, the estate may be subject to departure tax because the residency of the estate has changed from Canadian to foreign.

Practical Concerns

It can be very impractical for an executor to administer an estate when they do not reside in the same province, or country, as the deceased. Some aspects of the estate administration can be very difficult to accomplish if the executor is not physically present. For example, if the executor needs to deal with household items, prepare real estate for sale, or access a safety deposit box or storage unit, it is generally much simpler to accomplish these tasks when the executor can present themselves in person.

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For any estate, incapacity, and trust planning assistance, please don't hesitate to reach out to our team and get the conversation started.

WHAT IS THE NEW TAX-FREE FIRST HOME SAVINGS ACCOUNT AND HOW MAY I BENEFIT FROM IT?

With the soaring prices of real estate and amid the rapid decrease in home affordability, the Canadian government has decided to create a new savings mechanism, designed with first-time homebuyers in mind. Although the details have not been finalized yet, the expectation is that the new tax-free First Home Savings Account (FHSA) will be implemented in 2023. Canadians may then be able to save for a home purchase in a new and fiscally advantageous way. This article will provide you with basic knowledge of the FHSA and demonstrate how you could save for your upcoming home purchase.

FHSA at First Glance

Description	Tax-free First Home Savings Account (FHSA)
Lifetime Limit	$40,000 (account can remain open for 15 years)
Annual Contribution Limit	$8,000/year (contributions are tax-deductible)
Minimum Requirements	• Must be a Canadian resident; • Must be 18 years old or more; • Must not have owned a home for a minimum of four years prior to opening the account.
Withdrawals	• Tax-free (including the growth portion) when used to purchase a home; • Taxable when withdrawn for other purposes; • Can be transferred to an RRSP if not used without affecting contribution room.

A detailed overview

The tax-free First Home Savings Account will be, at its core, a cross between a Tax-Free Savings Account (TFSA), which provides for the tax-free growth of your investments, and a Registered Retirement Savings Plan (RRSP), which allows for tax-deductible contributions. The account will have a lifetime contribution limit of $40,000 and an annual contribution limit of $8,000. This means accountholders could contribute a maximum of $8,000 per year over a span of five years or $4,000 a year over a span of 10 years for example. This allows for flexibility in their cash flow, while having their funds grow tax free and reducing their taxable income in doing so. Be advised, however, that the account must be closed within 15 years of its opening (whether you purchased a home or not).

As with other investment vehicles, the FHSA will allow the accountholder to decide which type of investments are held and for how long. Because the funds inside the FHSA will not be guaranteed when invested in stocks, mutual funds, ETFs or similar products, it would be reasonable to prefer investing in fixed income and cash assets over equity assets should the home purchase be a short-term goal (i.e., within five years). If, however, the goal appears to be more long term, an individual may decide to prioritize equity assets and divest or reduce the portfolio risk over time, as the purchase nears.

The table below demonstrates the year-end value of maximum contributions made at the beginning of the year over a five-year period.

		YEAR-END VALUE BASED ON THE RATE OF RETURN		
YEAR	CONTRIBUTION	1%	3%	5%
2023	$8,000	$8,080	$8,240	$8,400
2024	$8,000	$16,241	$16,727	$17,220
2025	$8,000	$24,483	$25,469	$26,481
2026	$8,000	$32,808	$34,473	$36,205
2027	$8,000	$41,216	$43,747	$46,415

2028		$41,628	$45,060	$48,736
2029		$42,045	$46,411	$51,173
2030		$42,465	$47,804	$53,732
2031		$42,890	$49,238	$56,418
2032		$43,319	$50,715	$59,239
2033		$43,752	$52,237	$62,201
2034		$44,189	$53,804	$65,311
2035		$44,631	$55,418	$68,577
2036		$45,077	$57,080	$72,005
2037		$45,528	$58,793	$75,606
TAX-FREE GROWTH		**$5,528**	**$18,793**	**$35,606**

The FHSA's purpose will be to help first-time homebuyers accumulate a greater down payment; however, those who have not owned a home within the previous four years may open an account as well. Additional requirements include being a Canadian resident and at least 18 years of age. For example, a 25-year-old who is currently renting or living with their parents could open an account with the hopes of purchasing a home in the future. However, a similar 25-year-old who already owns a home cannot open an FHSA with the hopes of using the funds to purchase a second residence or help their children buy their first home.

How to optimize savings when cash flow is limited

It is generally recommended that Canadians maximize savings into registered accounts (TFSA's and RRSP's) before investing in non-registered or cash accounts. The investment income earned in those accounts is not taxed, which would result in a greater amount of savings in the long term. This would also be applicable to the new FHSA when it becomes available. Unfortunately, with a limited cash flow, especially at a younger age, most individuals will not be able to maximize all those accounts at once. With this in mind, how should they prioritize their savings?

An effective strategy that can allow those with limited dollars to save with the main goal of purchasing a home will be to prioritize contributions into an FHSA account. These contributions will decrease their taxable income, which in many cases will result in receiving a tax refund. Individuals could subsequently invest the tax refund into their TFSA. This would result in the multiplication of tax-free sources of a potential down payment. RRSP contributions could then be made in later years when a person is more advanced in their profession, earning a higher income and with saving for retirement as their new main financial goal. Furthermore, if the accountholder decides not to purchase a home, they could transfer the accumulated funds in their FHSA into their RRSP without affecting their overall contribution room.

The table below demonstrates the year-end value of $4,000 contributions made at the beginning of the year over a 10-year period.

		YEAR-END VALUE BASED ON THE RATE OF RETURN		
YEAR	CONTRIBUTION	1%	3%	5%
2023	$4,000	$4,040	$4,120	$4,200
2024	$4,000	$8,120	$8,364	$8,610
2025	$4,000	$12,242	$12,735	$13,241
2026	$4,000	$16,404	$17,237	$18,103
2027	$4,000	$20,608	$21,874	$23,208
2028	$4,000	$24,854	$26,650	$28,568
2029	$4,000	$29,143	$31,569	$34,196
2030	$4,000	$33,474	$36,636	$40,106
2031	$4,000	$37,849	$41,856	$46,312
2032	$4,000	$42,267	$47,231	$52,827
2033		$42,690	$48,648	$55,469
2034		$43,117	$50,108	$58,242
2035		$43,548	$51,611	$61,154
2036		$43,984	$53,159	$64,212
2037		$44,423	$54,754	$67,422
TAX-FREE GROWTH		**$4,423**	**$14,754**	**$27,422**

FHSA vs. HBP

The tax-free First Home Savings Account (FHSA) appears to be a more effective tool when compared to the Home Buyers' Plan (HBP) within an individual's RRSP, as it would allow for a higher amount to be withdrawn tax free with no repayment requirements. The table below compares both strategies.

Description	FHSA	HBP
Annual Contribution Limit	$8,000/year	18% of earned income (RRSP)
Maximum Withdrawal	$40,000 plus accumulated growth	$35,000
Tax-free Status	Yes, if used for home purchase	Yes, if yearly repayments are made
Repayment	None	6.67% (or 1/15) of the amount withdrawn on an annual basis, over 15 years

If you or a family member have any questions regarding the new tax-free first home savings account, please don't hesitate to reach out to our team.

Client's Corner

How to Think About "The Stock Market"

ON THE ONE HAND, HERE IS A COLLECTION OF 500 OF THE largest, most soundly financed, best managed, most profitable, most innovative and most transparent companies serving America and the world at large. It's the Standard & Poor's 500-Stock Index. You not only recognize the names of these companies; you and your family purchase their products and services regularly—some as often as daily.

It is not too much to say that these companies have forged—and are continuing to forge—the American economic experience. Why does this country, with only about five percent of the world's population, produce around a quarter of global GDP? In an important way, these companies are why. Entrepreneurial shareholder capitalism is why.

Thus, you may be happy to learn that you may purchase (albeit indirectly) ownership in these 500 companies with the click of a computer. You may thereby invest your retirement capital—and the legacy you wish to leave your children, many years from now—in these companies, in the hope that they will continue to grow their earnings, their dividends and their long-term value as successful businesses.

That's on the one hand.

On the other hand, here is (and I place this concept in quotation marks very deliberately) "the stock market."

I submit for your consideration the thesis that they are not the same thing. Indeed, I suggest that, on anything less than a long-term basis, they have relatively little to do with each other.

As a general statement, the focus of the 500 companies is on the long-term improvement of their businesses. They seek to earn progressively more net income over time by expanding and enhancing the products and services they offer, all the while taking care to keep their prices competitive. This, their highly compensated management teams know, is a marathon rather than a sprint.

To the extent that the companies as a group succeed in these endeavors, many of them are able to increase their dividends; by reinvesting those dividends, shareholders find their investment not just growing but ***compounding*** in value over time.

The focus of "the stock market," on the other hand, tends to be minute to minute, day to day, month to month and quarter to quarter. Other than in the long run, "the stock market" need not, and it certainly does not, reflect the gradually advancing earnings, dividends and intrinsic values of the great companies. Instead, "the stock market" reflects what a plurality of market participants—not infrequently stampeded into a panic attack by relentlessly negative financial journalism—is feeling about stock prices ***right now.***

As someone who is investing for what may very well turn out to be a three-decade two-person retirement—and who may also be hoping to create a legacy for one's children and grandchildren—you will want to keep your focus on the long-term record of the companies. And you'll find that, over time horizons appropriate to your most cherished goals, the earnings of those companies and their stock prices have risen in very close relation to each other.

In 1970, for example, the Standard & Poor's 500-Stock Index earned $5.51, and closed out the year at 92. As I write, the consensus earnings forecast for 2022 is around $220, and the Index is trading near 4,200. That is, they're both up about 40 times, and not at all coincidentally: the blended values of the 500 companies have been borne aloft by their rising earnings. (With dividends reinvested, the average annual compound rate of total return in this period has been about 10.5%.) ***This is how it works.***

In the interim, "the stock market" has on very many occasions been a screaming nightmare from which you couldn't wake up:

- The ***average*** annual peak-to-trough correction in the S&P 500 was upwards of 14%.
- The Index declined by an ***average*** of about a third around each of the nine U.S. economic recessions beginning with the one that started in December of 1969. (Yes, I acknowledge that at this writing the ninth and most recent episode has not yet been anointed an "official" recession by the august sages of the National Bureau of Economic Research, and I say the hell with it.)
- The Index about ***halved***—as in "down an average of 50%"—***three times*** (1973-74, 2000-02, 2007-09).

The choice remains yours (aided, of course, by the gentle but persistent counsel of your financial advisor). You can focus on the earnings, dividends and values of superior businesses over time horizons commensurate with your lifetime financial goals. Or you can focus at any given moment on the manic-depressive short- to intermediate-term randomness of "the stock market."

In a very real sense, that choice will end up dictating the financial outcome of the rest of your life.

Sources: Average annual correction: JP Morgan Asset Management. Average decline around recession: NBER, Standard & Poor's. Index halved three times: Standard & Poor's, Yardeni Research.

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