

Genus Seminar: Tax Strategies for 2023

February 23, 2023

GENUS
CAPITAL MANAGEMENT





Host



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Tax Strategies 2023 Agenda

1

RRSP vs TFSA

2

Income Splitting Strategies

3

2023 Tax Changes

4

Tax Treatment of Investment Income

5

CPP/OAS, when should I take it?

RRSP vs TFSA

RRSP

- Tax deduction, reduces income
- Tax deferred growth
- Withdrawals fully taxable
- Least tax efficient account
- 2023 limit 18% earned income
\$30,780 max

TFSA

- No tax deduction
- No tax on growth
- Withdrawals not taxable
- Most tax efficient account
- 2023 limit \$6,500 / \$88,000 lifetime

RRSP vs TFSA Strategies

RRSP Strategies

- Contribute to RRSP in high income years
- Withdraw in lower income years at lower tax rate
- Large RRSP contribution can be carried forward, used in future years
 - ex: Proceeds from a property sale, severance payout, inheritance, etc.
 - Deduction can be claimed after age 71, reducing tax in retirement
- RRSP roll-over to RRIF at age 71
 - tax planning opportunities before & after

RRSP vs TFSA Strategies

TFSA Strategies

- Contribute to TFSA in lower income years
- Transfer funds to RRSP in higher income years to create tax deduction
- Flexibility to withdraw without tax
- Funds withdrawn create new contribution room

2023 Combined Federal & British Columbia Tax Rates

| Taxable income | | | | British Columbia | | | |
|----------------|--------|----------------------|--|------------------------|----------------|---------------------------------------|------------------------------------|
| Lower limit | | Upper limit | | Basic tax ² | Rate on excess | Marginal rate on | |
| | | | | | | Eligible dividend income ³ | Other dividend income ³ |
| | | | | | | | Capital gains ⁴ |
| \$ - | to | 15,000 | | - | 0.00% | 0.00% | 0.00% |
| 15,001 | to | 22,277 | | - | 15.00% | 0.00% | 6.87% |
| 22,278 | to | 23,179 | | 1,092 | 20.06% | 0.00% | 10.43% |
| 23,180 | to | 37,814 ⁵ | | 1,272 | 23.62% | 0.00% | 14.53% |
| 37,815 | to | 45,654 | | 4,729 | 20.06% | 0.00% | 10.43% |
| 45,655 | to | 53,359 | | 6,302 | 22.70% | 0.00% | 13.47% |
| 53,360 | to | 91,310 | | 8,051 | 28.20% | 7.56% | 19.80% |
| 91,311 | to | 104,835 | | 18,753 | 31.00% | 7.56% | 23.02% |
| 104,836 | to | 106,717 | | 22,946 | 32.79% | 7.96% | 25.07% |
| 106,718 | to | 127,299 | | 23,563 | 38.29% | 15.55% | 31.40% |
| 127,300 | to | 165,430 | | 31,444 | 40.70% | 18.88% | 34.17% |
| 165,431 | to | 172,602 ⁶ | | 46,963 | 44.02% | 23.45% | 37.98% |
| 172,603 | to | 235,675 ⁶ | | 50,120 | 46.12% | 26.35% | 40.40% |
| 235,676 | to | 240,716 | | 79,207 | 49.80% | 31.44% | 44.64% |
| 240,717 | and up | | | 81,717 | 53.50% | 36.54% | 48.89% |

Income Splitting Strategies

Passive Strategies

Income split to spouse only on tax return:

- Registered Pension Plans
- Certain Annuities
- RRIF income

Different rules before or after age 65

Active Strategies

Direct income to other individuals:

- RESP/RDSP
- Spousal RRSP
- Spousal Loan
- Family trust



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Income Tax.

Understand, Plan and Manage



Tax Changes for 2023

Inflation & indexation

- ▶ Federal inflation factor
 - ▶ 2022: 2.4%
 - ▶ 2023: 6.3% ←
- ▶ Affects many areas:
 - ▶ Tax brackets
 - ▶ OAS - Old Age Security
 - ▶ CPP - Canada Pension Plan
 - ▶ GIS - Guaranteed Income Supplement
 - ▶ Other benefits, credits, limits and thresholds
 - ▶ CRA Prescribed Interest Rates - loans, tax payable...



Tax Changes for 2023

Tax Free Home Savings Account

- ▶ Contributions are deductible (\$8k/yr \$40k lifetime) without affecting RRSP contribution limit
- ▶ Income is not taxed (similar to TFSA)
- ▶ Withdrawal is not taxed - *but* must be used for purchase of first home
- ▶ Can be used in combination with RRSP HBP \$35k withdrawal



Tax Changes for 2023

Residential Property Flipping

- ▶ Profit on property held <12 mo = fully taxable income
- ▶ No access to Principal Residence Exemption
- ▶ No access to Capital Gains 50% exemption
- ▶ Exemptions for special circumstances beyond taxpayers control
(*divorce, death, bankruptcy...*)



Tax Changes for 2023

Housing Taxes

- ▶ **Canada Under-used Housing Tax**
 - ▶ *1.0% of assessed value*
 - ▶ *Non-resident, non-Canadian owned residential real estate*
 - ▶ *considered vacant or under-used*
- ▶ **BC Speculation Tax**
 - ▶ *Specific regions with low vacancy*
 - ▶ *0.5% - 2.0% of assessed value*
- ▶ **City of Vancouver Empty Homes Tax**
 - ▶ *3.0% of 2022 assessed value*
 - ▶ *5.0% of 2023 assessed value*

All are separate filings and payment from T1 Personal Tax returns



Tax Changes for 2023

Home Accessibility Tax Credit

- ▶ Must have a resident in the home eligible for Disability Tax Credit
- ▶ Up to \$20,000 expense
(up from \$10,000 previously)

Multi Generational Renovation Tax Credit

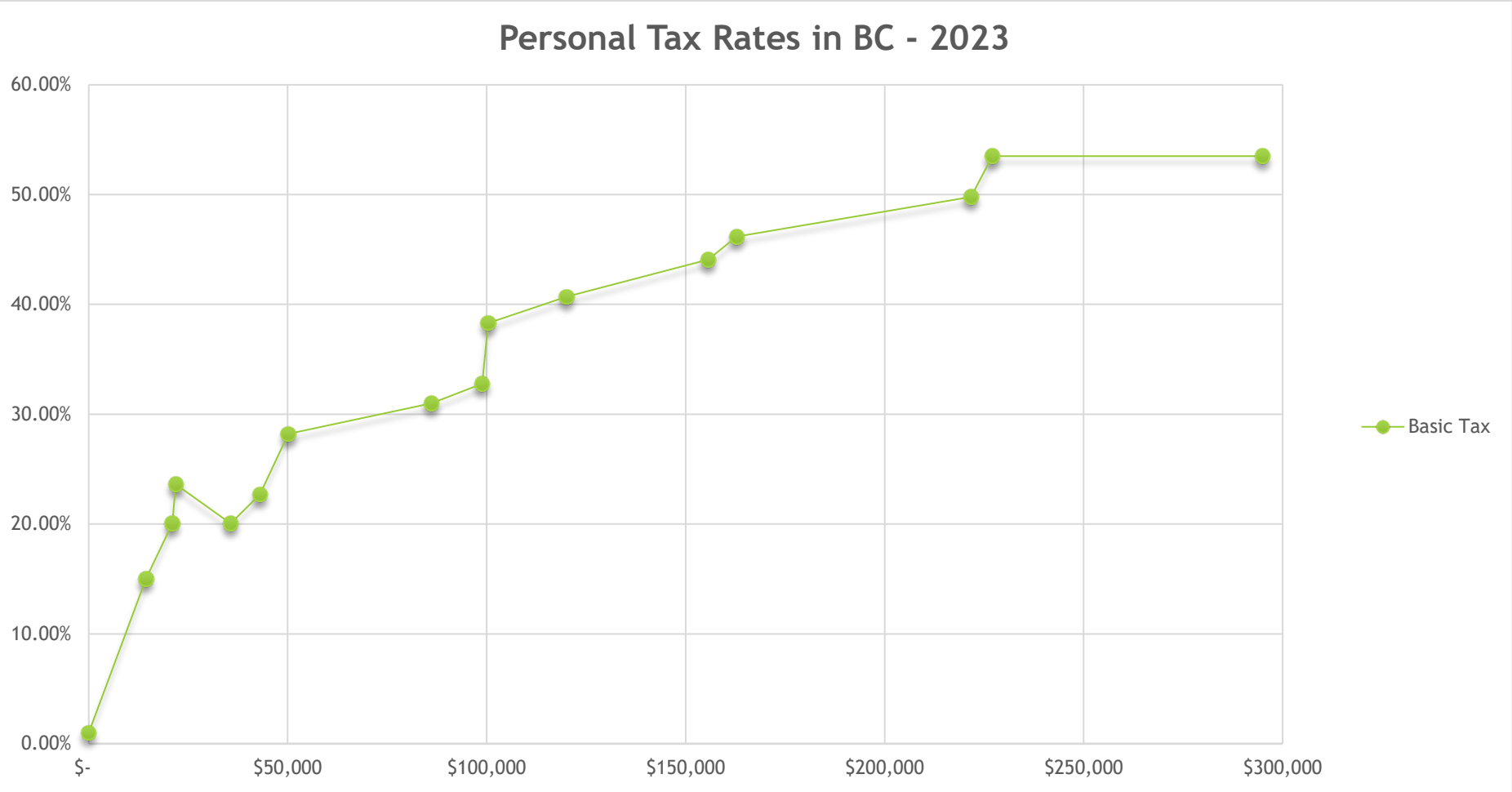
- ▶ Create a secondary dwelling unit to for eligible person to occupy
(parent, grandparent, child, grandchild, brother, sister, aunt, uncle, niece or nephew)
- ▶ Must have permits and be built to local code
- ▶ Up to \$50,000 expense

Personal Marginal Tax Rates

| Taxable income | | | | British Columbia | | | | |
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| 172,603 | to | | 235,675 ⁶ | 50,120 | 46.12% | 26.35% | 40.40% | 23.06% |
| 235,676 | to | | 240,716 | 79,207 | 49.80% | 31.44% | 44.64% | 24.90% |
| 240,717 | and up | | | 81,717 | 53.50% | 36.54% | 48.89% | 26.75% |

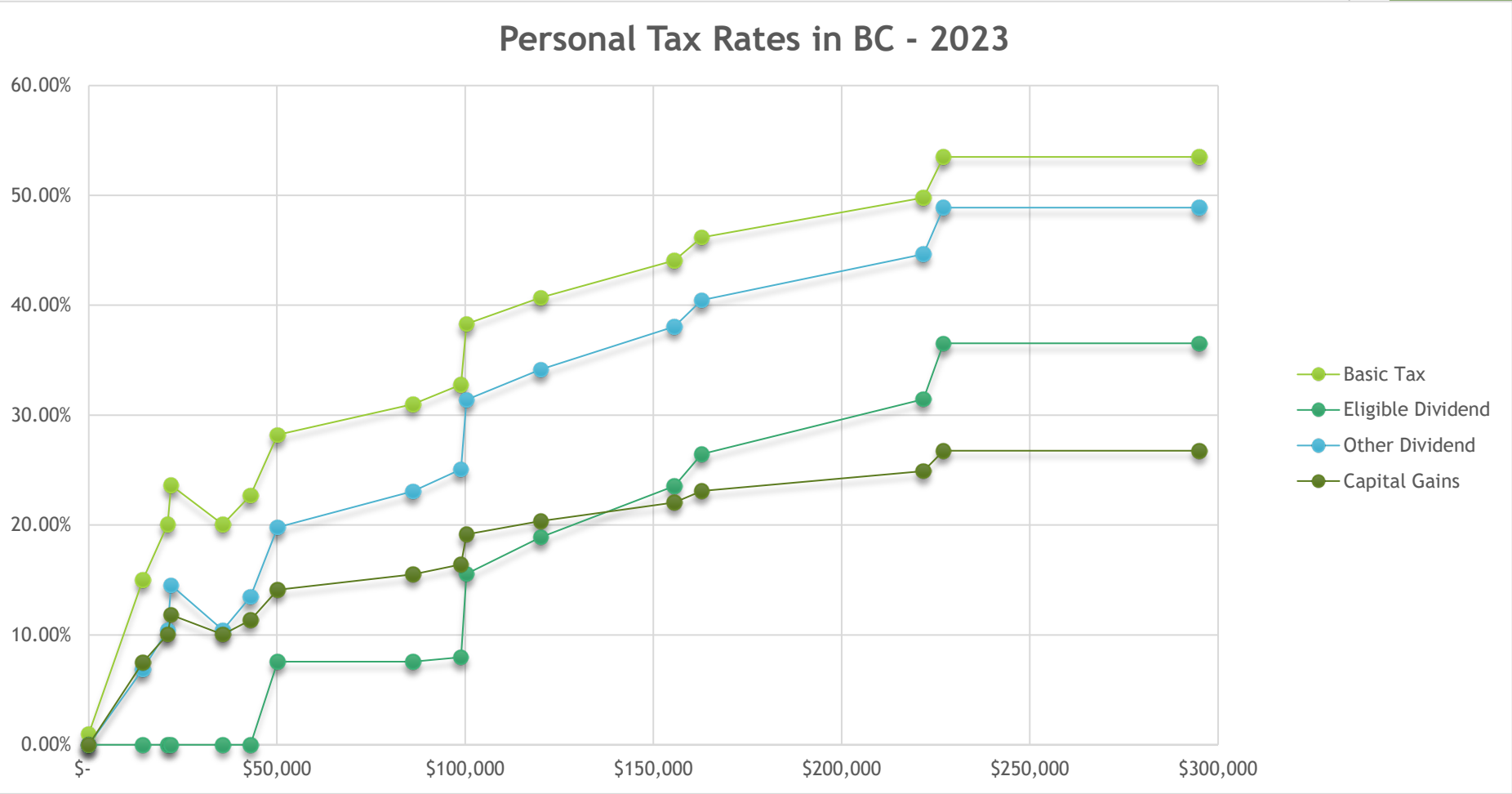


Personal Marginal Tax - Earned Income





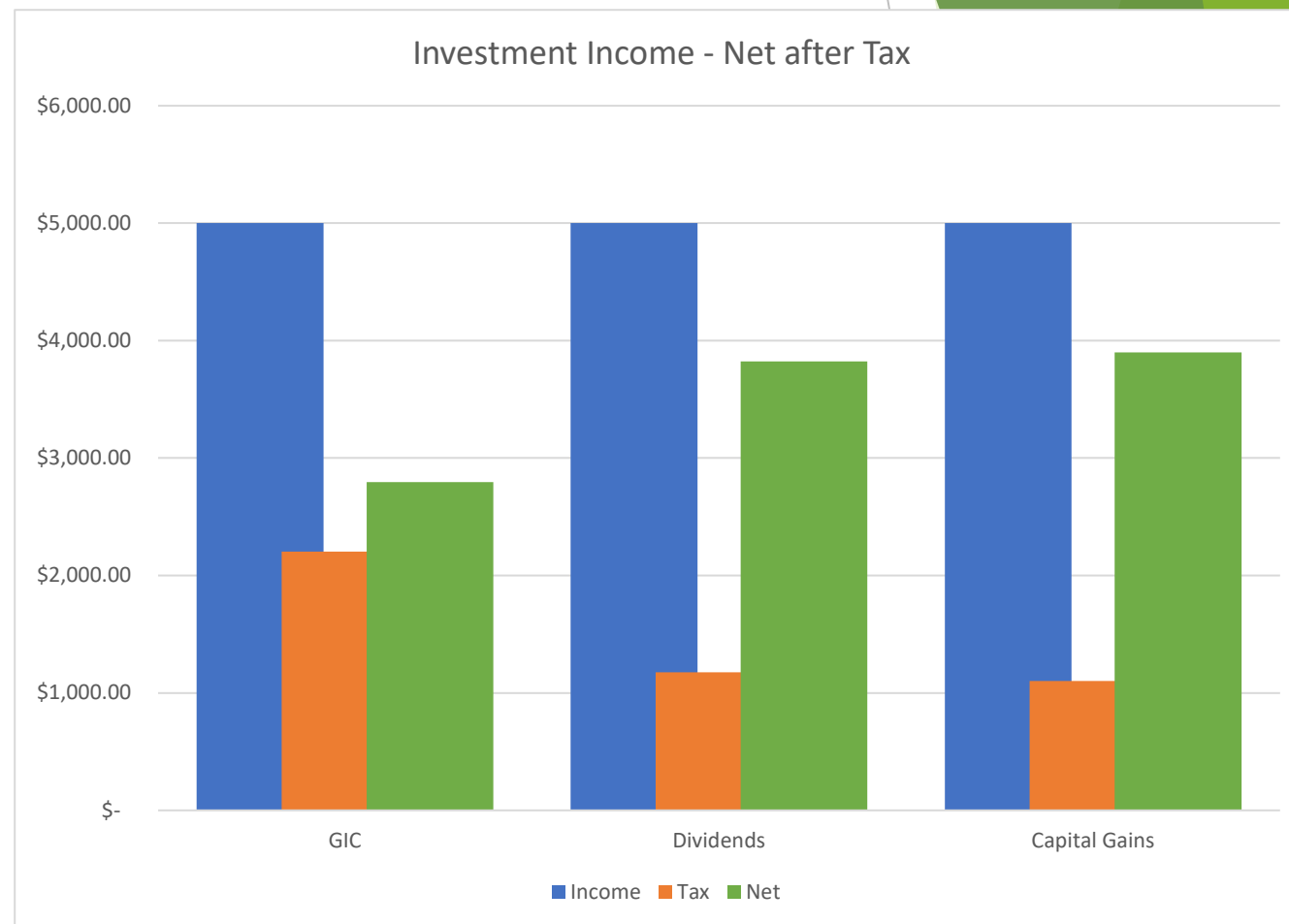
Personal Marginal Tax - All Income





Tax on Investment Income

- ▶ Taxpayer with \$120,000 salary
- ▶ \$5,000 investment income from
 - ▶ GIC interest
 - ▶ Canadian Dividends
 - ▶ Capital Gains
- ▶ Net income after tax:
 - ▶ Dividends 36% higher than interest income
 - ▶ Capital Gains 39% higher than interest income

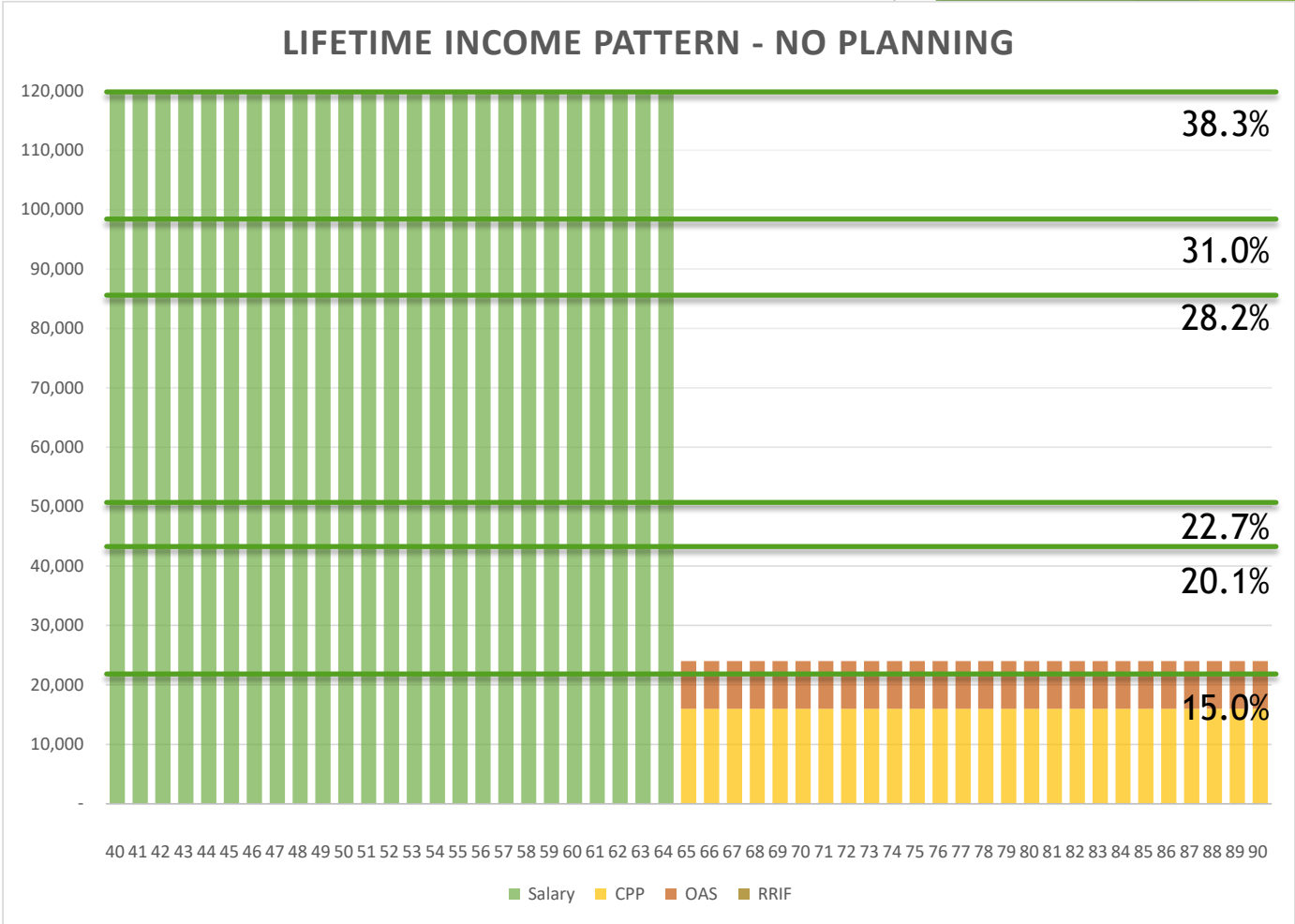




Income Splitting

Typical income pattern

- ▶ Working life income = Salary
- ▶ Retirement income = CPP + OAS + Savings

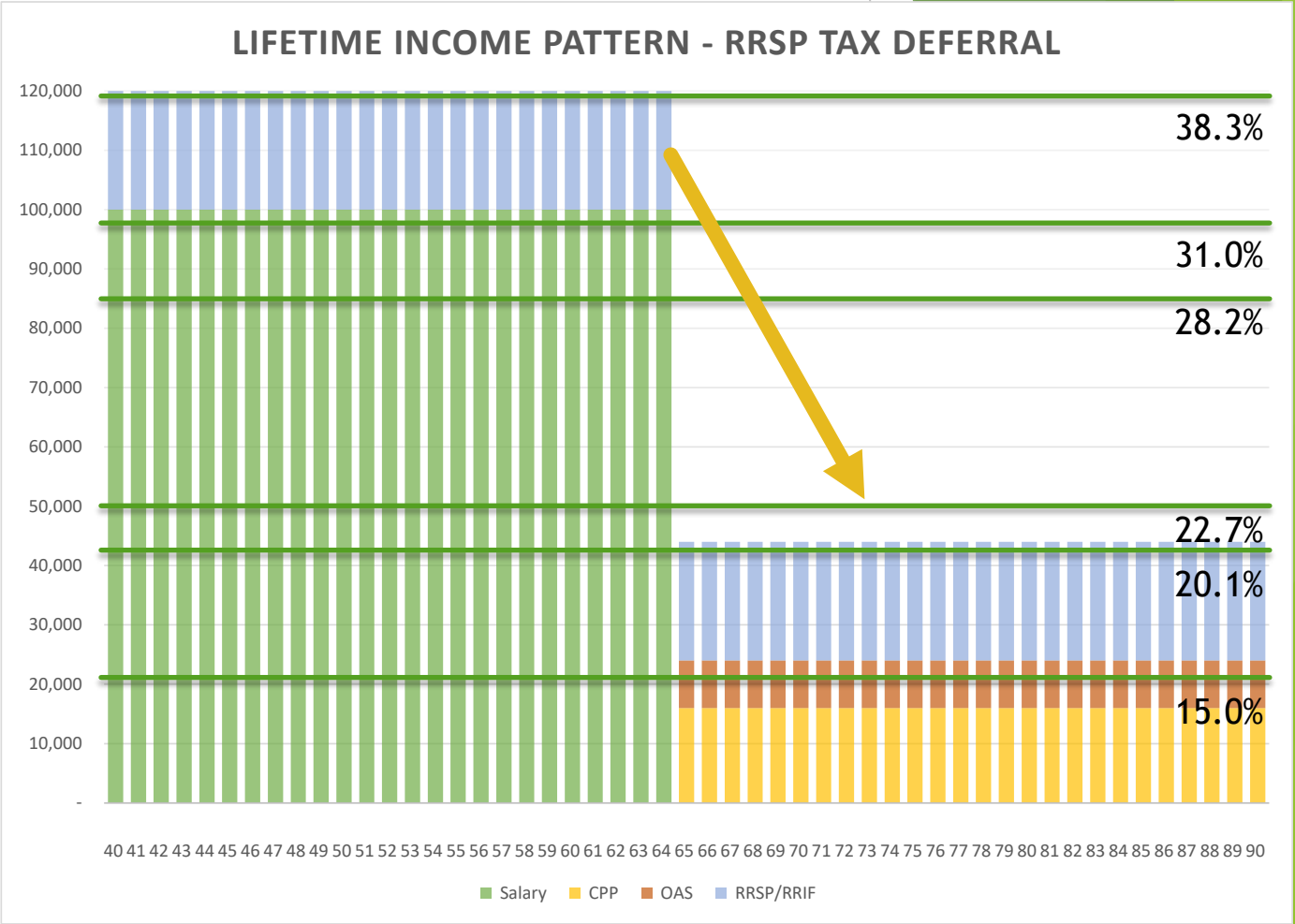




Income Splitting - RRSP

RRSP Strategy

- ▶ Reduce taxable income while working
- ▶ Receive income in retirement
- ▶ Defer tax AND lower tax rate

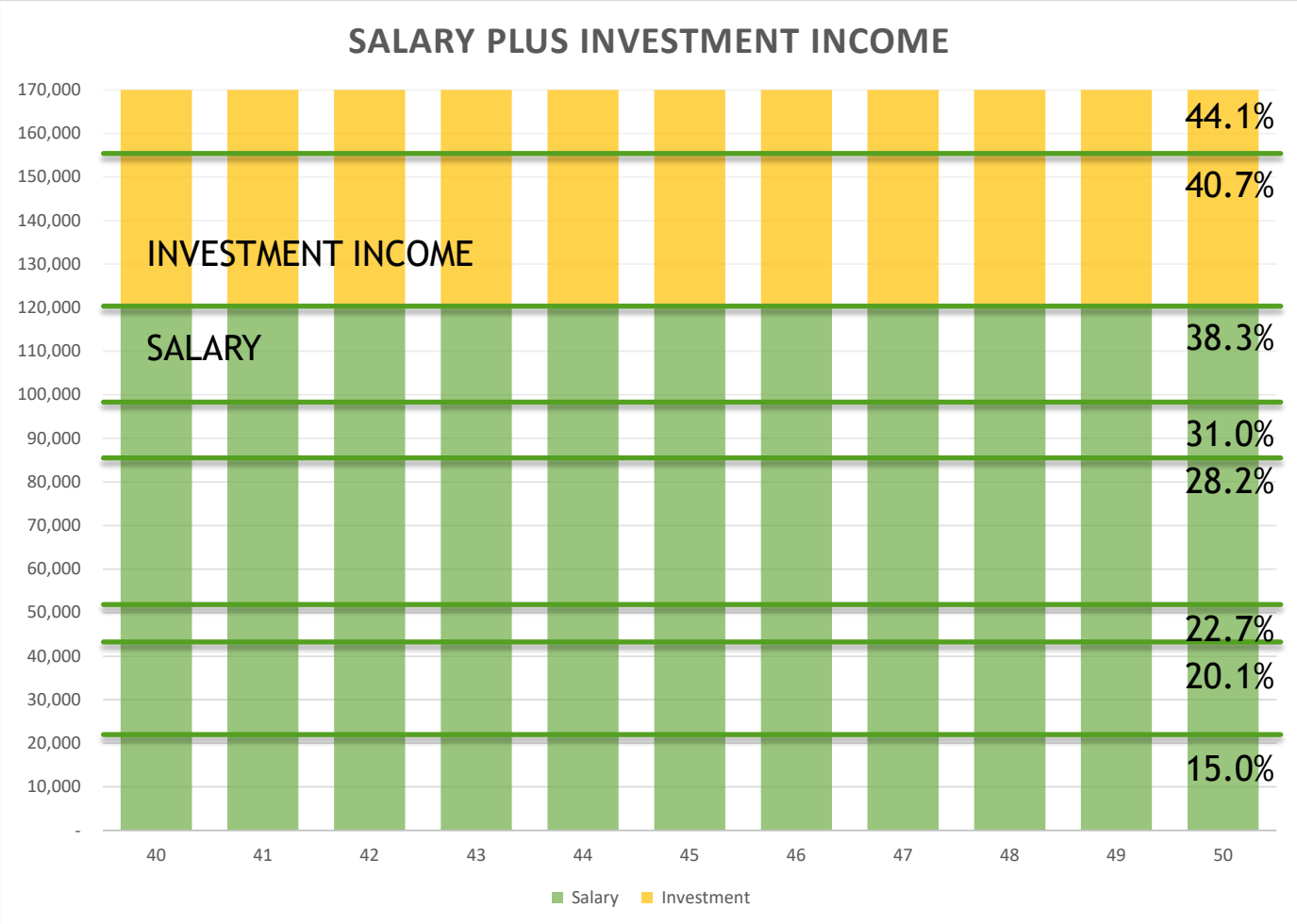




Income Splitting - Family Trust

Typical Income Pattern

- ▶ Salary plus investment income
- ▶ High tax rates on investment income

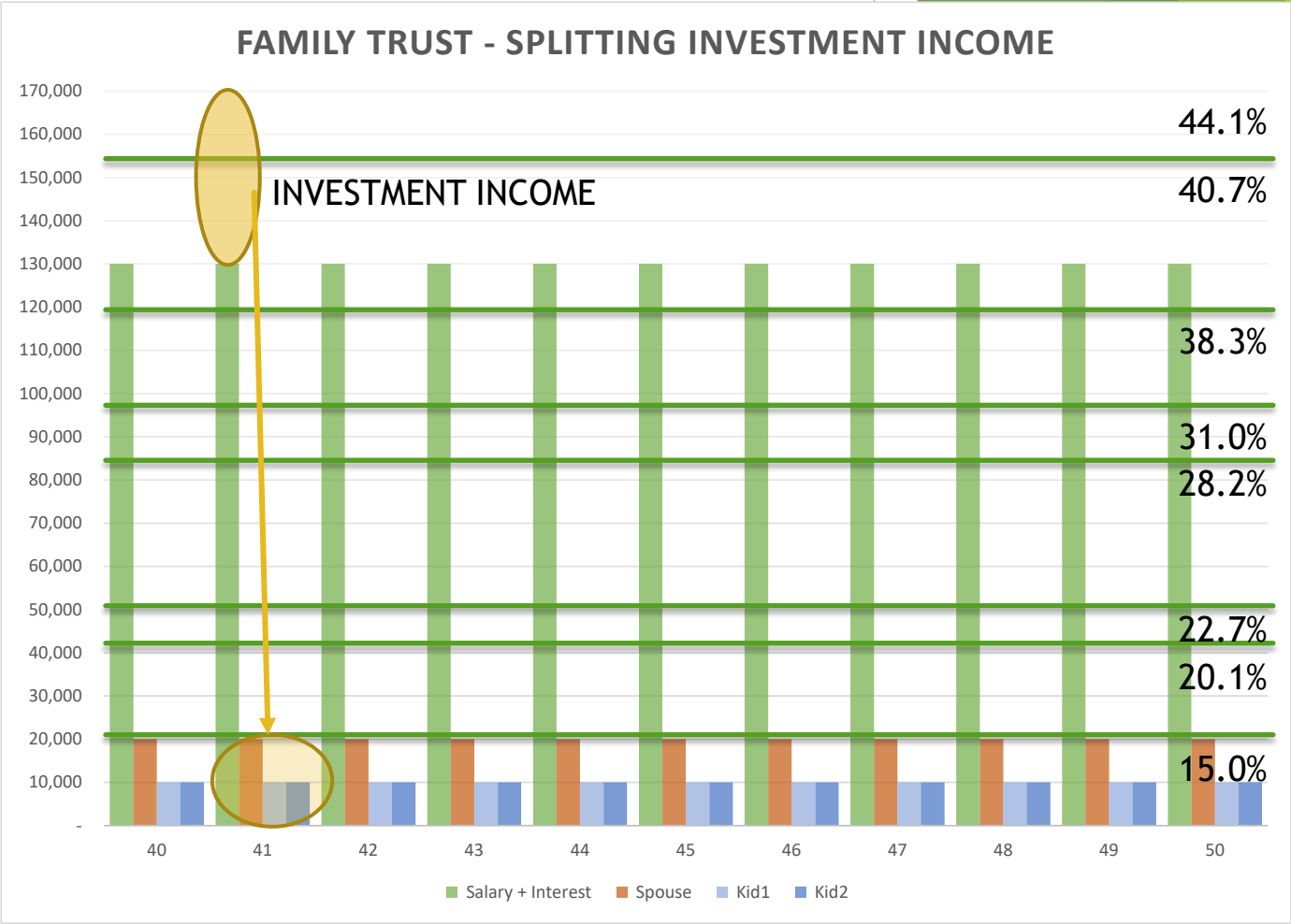




Income Splitting - Family Trust

Family Trust Strategy

- ▶ Divert investment income away from high income earner to other family members
- ▶ Lower tax payable on investment income

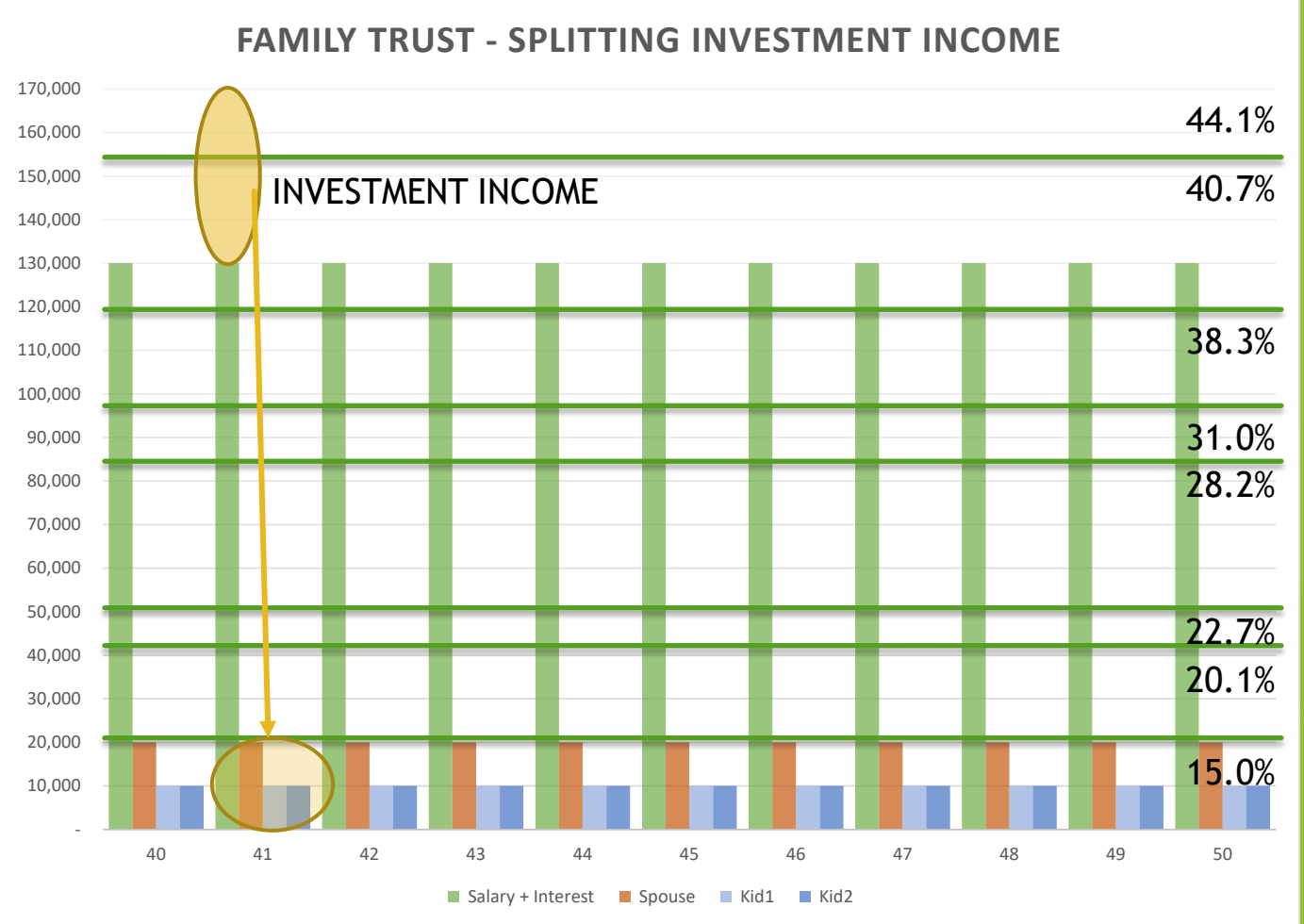




Income Splitting - Family Trust

Family Trust Strategy

- ▶ On top of \$120k salary, a balanced portfolio average tax rate approx. 25%
- ▶ By splitting \$40,000 of investment to family members with little or no other income, tax savings potential = \$10,000/yr
- ▶ Separate legal entity
 - ▶ additional legal & accounting fees
 - ▶ Requires either permanent contribution of assets, or prescribed interest rate loan of investment assets to the Trust

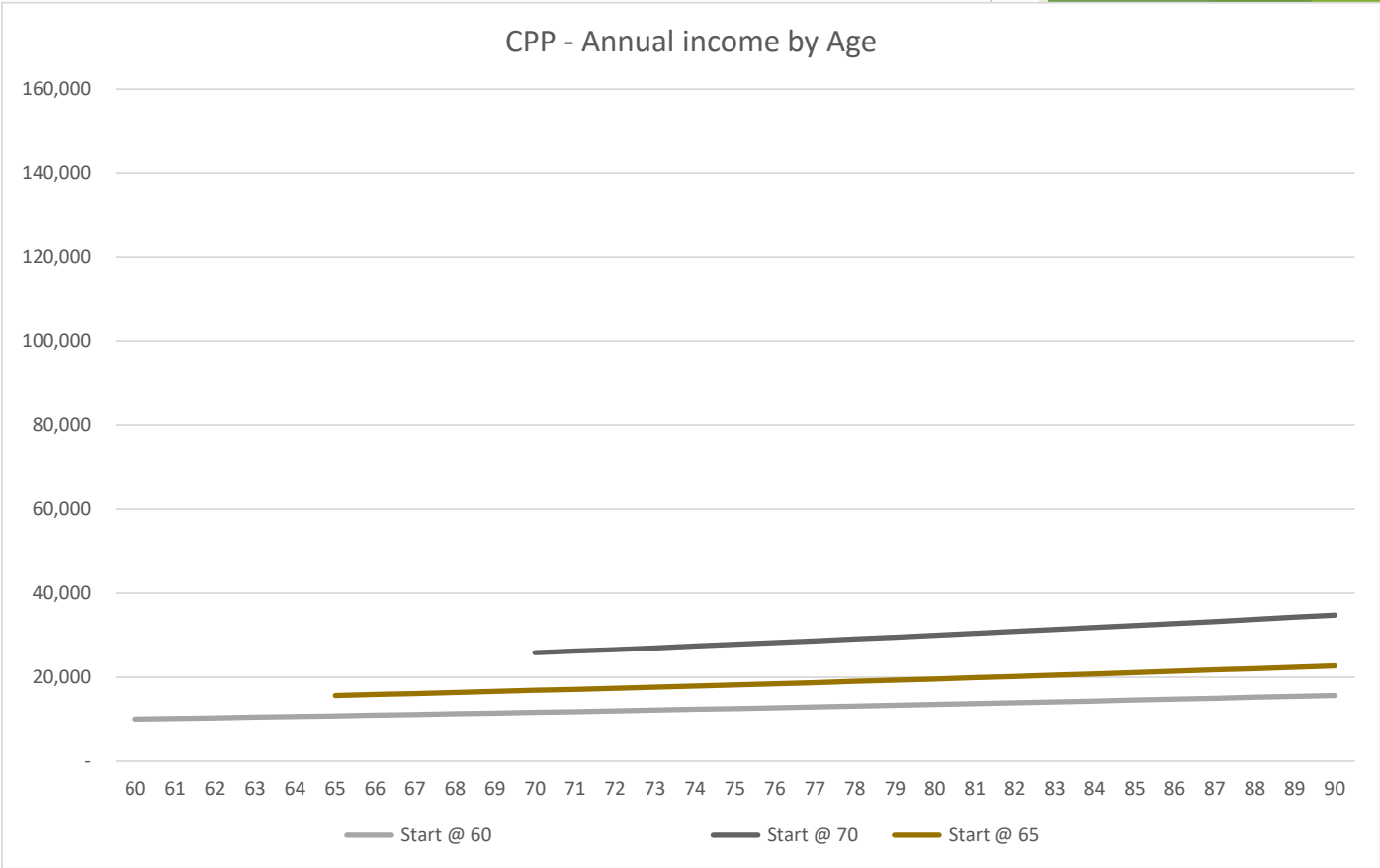




When should I take CPP?

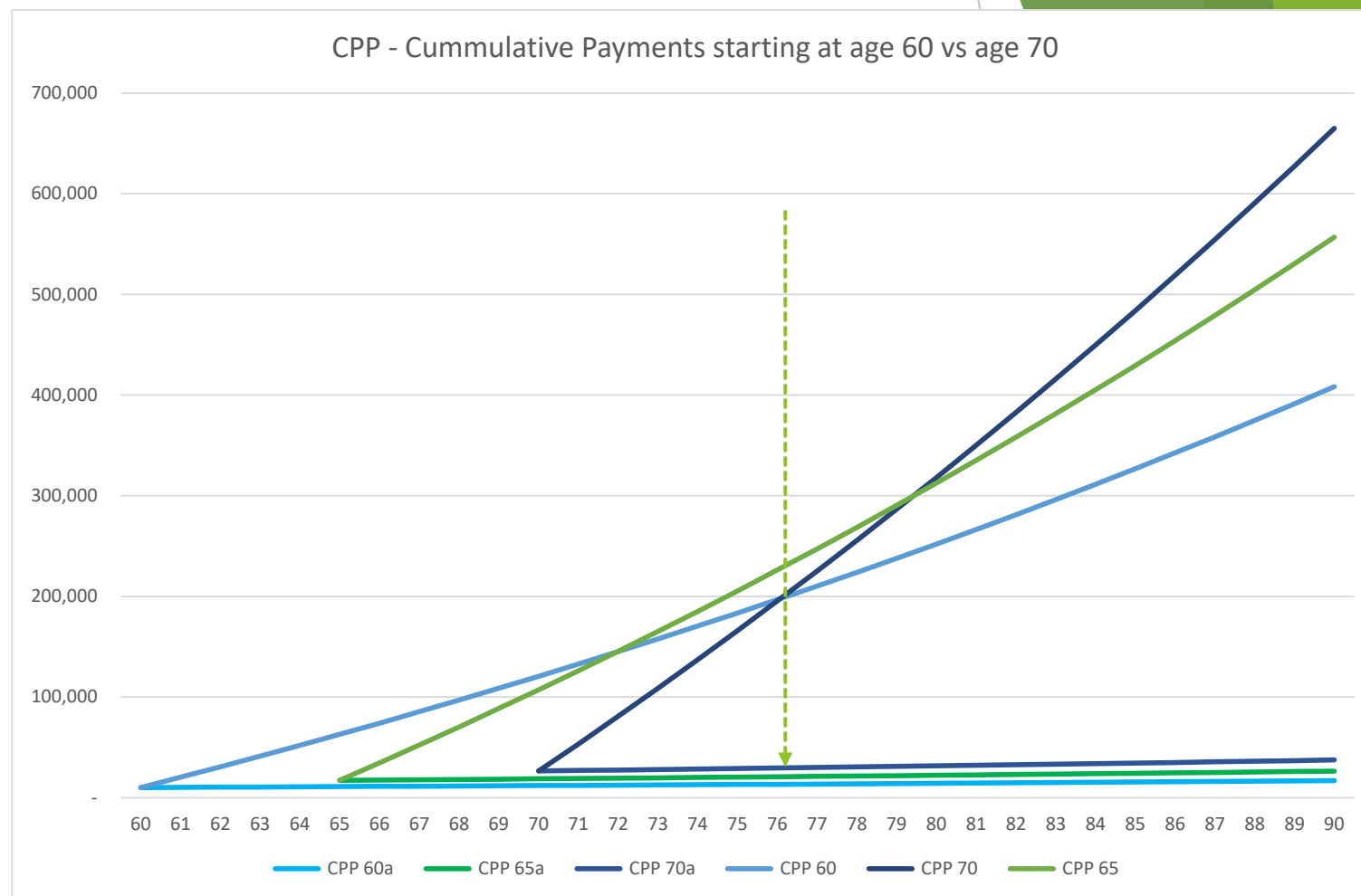
OPTIONS:

- ▶ Age 60 = \$10,034
(- 7.2%/yr)
- ▶ Age 65 = \$15,679
- ▶ Age 70 = \$25,838
(+ 8.4%/yr)



When should I take CPP?

- ▶ Age 60 = \$10,034
(- 7.2%/yr)
- ▶ Age 65 = \$15,679
- ▶ Age 70 = \$25,838
(+ 8.4%/yr)
- ▶ Break-even point @ age 76+



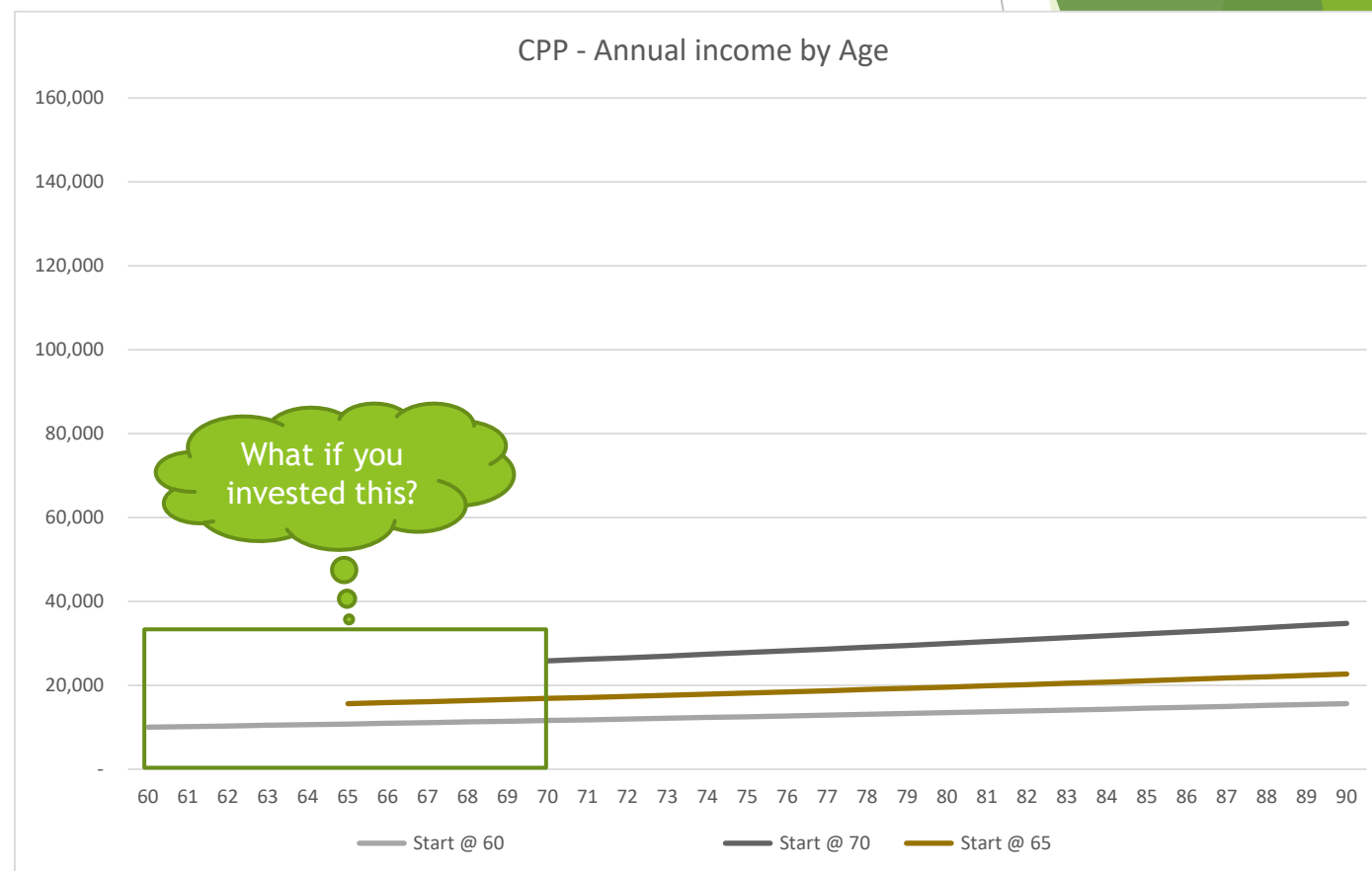
When should I take CPP?

OPTIONS:

- ▶ Age 60 = \$10,034
(- 7.2%/yr)
- ▶ Age 65 = \$15,679
- ▶ Age 70 = \$25,838
(+ 8.4%/yr)

STRATEGY:

- ▶ What if you invested the CPP income from age 60 to 70?

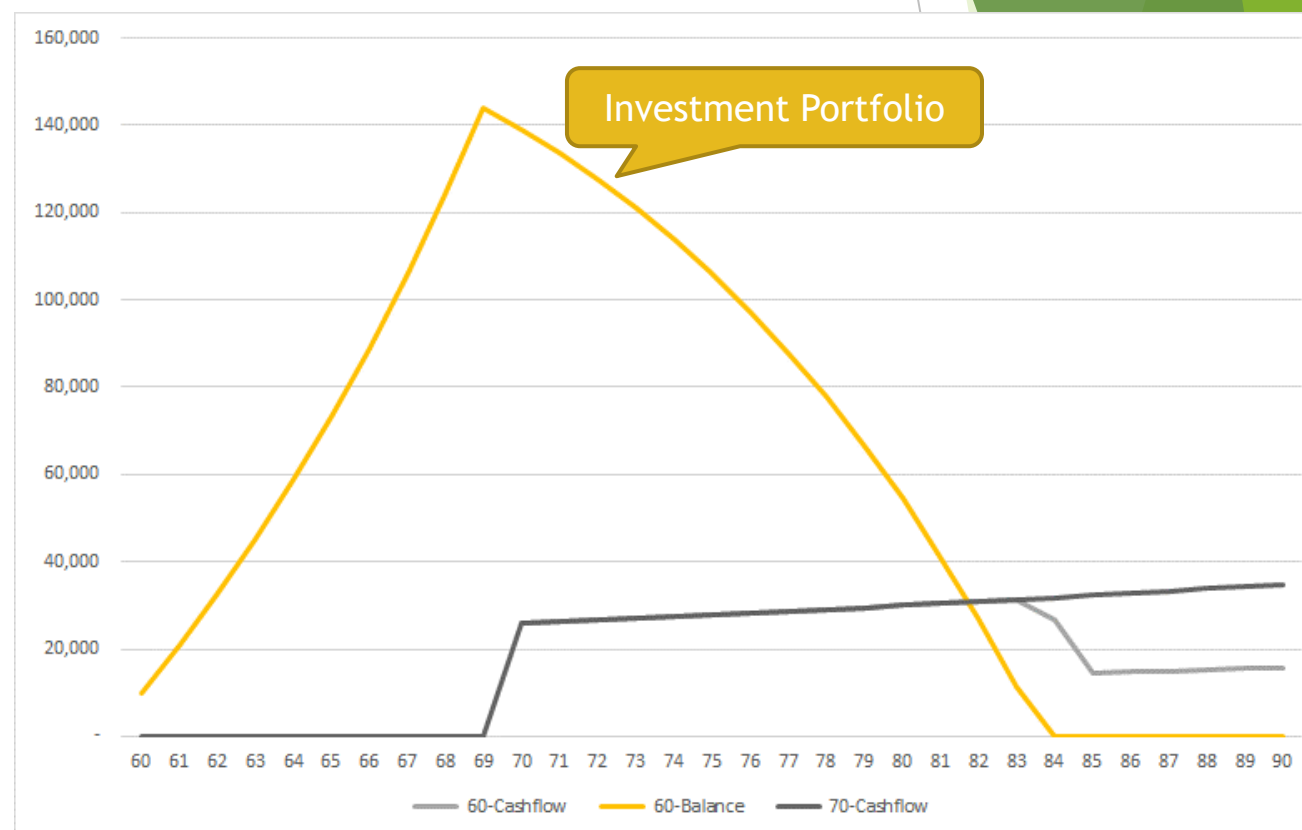




Invest your CPP payments

CPP Early to Invest Strategy #1:

- ▶ Start at Age 60
- ▶ Invest the CPP payments until age 70
- ▶ Withdraw from investments to match cash flow of only CPP at age 70
- ▶ Advantages:
 - ▶ Break-even point extended to age 84+
 - ▶ You own the portfolio.
 - ▶ Access to cash any time between 60 and 84 from investments
- ▶ Disadvantage:
 - ▶ Lower monthly income after investment account used up

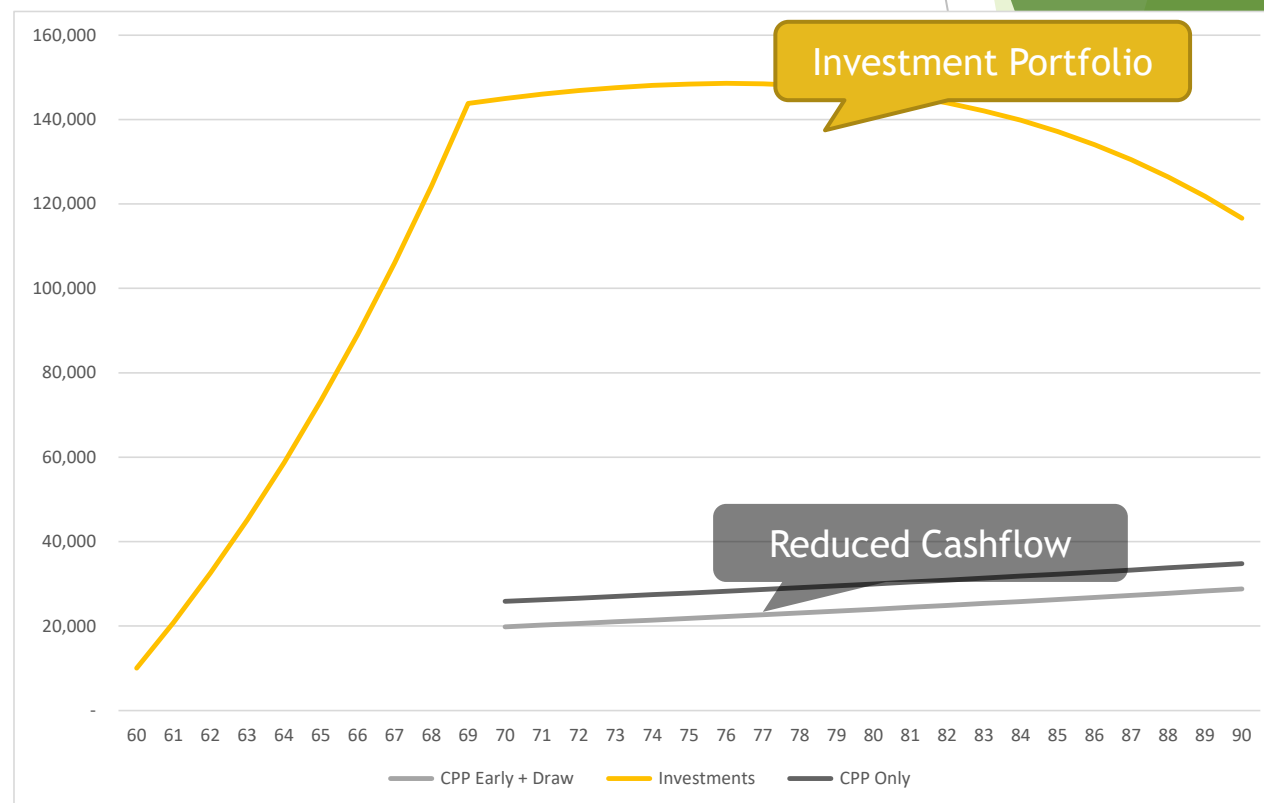




Invest your CPP from age 60-70

CPP Early to Invest Strategy #2:

- ▶ Take CPP at Age 60
- ▶ Invest the payments until age 70
- ▶ at age 70 - start to draw from investment account
- ▶ **Advantages:**
 - ▶ Increased estate value (*passes to your beneficiaries*)
 - ▶ Access to investments (*emergency, etc.*)
- ▶ **Disadvantage:**
 - ▶ Slightly less cashflow at age 70, but this is discretionary!

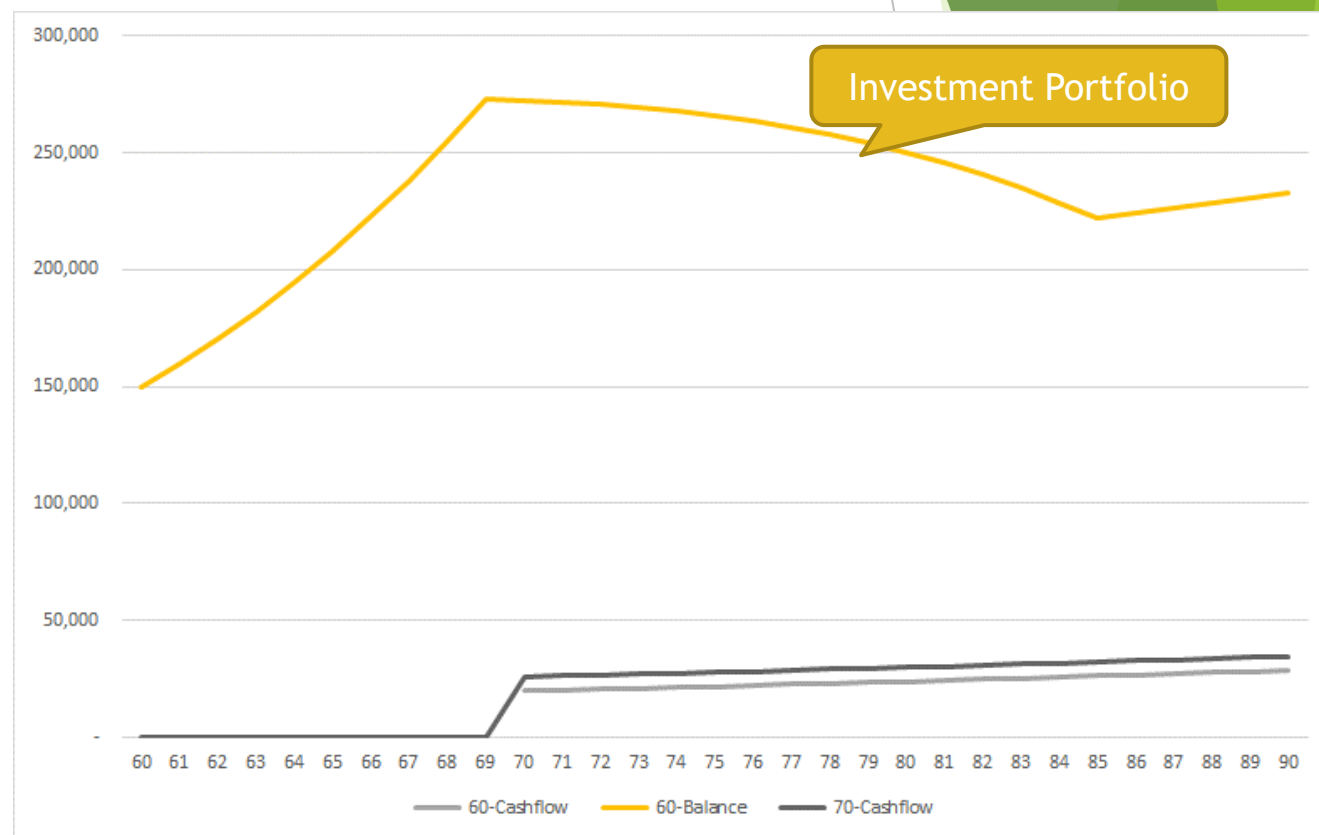




Leverage + Invest your CPP

CPP Early + Leverage Strategy #3:

- ▶ \$150k mortgage
- ▶ Mortgage payments made using CPP benefit from age 60
- ▶ Decrease monthly draws by \$500 compared to max CCP @ age 70
- ▶ Advantages:
 - ▶ Investment portfolio you own from age 60 to 100+
 - ▶ Access to cash any time after age 60
 - ▶ More than \$200k+ increase in Estate
- ▶ Disadvantage:
 - ▶ \$500 lower monthly income > age 70



The background is split diagonally from the top-left to the bottom-right. The upper-left portion is orange, and the lower-right portion is blue. Both sections feature a faint, misty mountain landscape. A large white letter 'Q' is positioned on the orange side, and a large white letter 'A' is on the blue side.

Q

A

Please submit your questions in the chat

Thank You!

Are you ready
to make an impact
with your
investments?

Let's talk!



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Webinar:

Women in Impact Investing

Join us as we explore the pivotal role women are playing in the impact investing space - as investors, as asset managers and in other critical roles.

March 23, 2023

10:00AM – 11:00AM PT

Click the link in the chat to register



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Genus Capital Management



Sue May Talbot

Portfolio Manager, Partner
Genus Capital Management



Elyse Crowston

VP, Operations
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