FALL 2019

PERSPECTIVE

ARCA™ FINANCIAL GROUP

PEOPLE WHO CARE, PLANS THAT PERFORM

Estate Planning 101

The freedom to protect your legacy and loved ones the way you want.

Estate planning isn't just for the affluent – it's for all those who want to protect the people they love and the assets they've worked so hard to build. In simple terms, estate planning is the process of arranging for the legal disposition and administration of assets after death. Assets can include anything from real estate or a business, to bank accounts, investments and personal belongings. Estate planning can help minimize fees and taxes, provide for loved ones, establish a guardian for dependants, set up inheritances and more. And as a person's life progresses and financial goals change, so does the plan.

Here are some ways an estate plan can help make life easier at a difficult time.

Name a guardian for children

For parents with young families, a valid will enables them to identify a guardian for their children in the event both parents are no longer able to care for them. Without a will documenting this decision, the choice of who will raise minor children falls to the courts.

Handle an estate according to wishes and intentions

An estate plan is the only way for Canadians to control how they will leave their money, assets and property after they pass away. It provides an opportunity to determine who will administer the estate, who the beneficiaries will be and how assets will be distributed.

Minimize expenses and income tax liability

Estate planning is an effective method for reducing or eliminating probate fees.[1] Probate is the legal process in which a will is validated by the courts, and fees vary by province or territory.[2] Certain options (such as trusts, joint ownership, life insurance products, pension plans and RRSPs) help avoid probate because proceeds pass outside of the estate.

From a tax perspective, a person's assets are deemed disposed of at death, which may result in the estate owing income tax. Opportunities exist to defer or reduce this tax liability.

Offer protection in a situation of incapacity

While incapacity is often associated with later life, it could occur at any age (for example, due to an accident or medical situation). Naming a power of attorney – for financial affairs and health care decisions – is crucial to help ensure finances and intentions are effectively managed in the event of incapacity.

Each estate plan is as unique as its owner and will change over time, but it is never too early to put one in place. To understand the various aspects of estate planning, speak with your advisor. He or she can connect you with experienced legal and accounting professionals who can help you create an estate plan that is right for you and your family.

[1] In Quebec probate, or verification, is not applicable for notarial wills.

[2] www.taxtips.ca/willsandestates/probatefees.htm

IN THIS ISSUE

Spotlight on Investment Tax Rates
I'm paying how much??

Having a high-performing investment portfolio that generates big returns is exciting stuff. But do you know how your investment earnings are taxed? Just as you would assess your level of comfort with risk, it's a good idea to have a solid understanding of the tax rates on various investments if you hold them in a non-registered (taxable) account. From capital gains to interest and dividends, consider this your tax primer on investments.

Different types of investment income

A great place to start is to know your marginal tax rate, which is based on the combined federal and provincial tax brackets. Search "2019 Tax Rate Card" at https://repsourcepublic.manulife.com.

Next, you will want to understand the different types of investment income available to you, which may include interest earned on savings accounts, dividends paid by stocks, foreign investment income, or capital gains and losses that can occur when you sell an investment.

Canadian interest income

Taking the biggest tax hit is the interest earned on Canadian savings accounts as well as the interest earned on Canadian fixed-income investments – think government bonds, bank or insurance-based guaranteed interest contracts (GICs) and government treasury bills (T-bills). Interest income can form part of the allocations or distributions received from segregated fund contracts or mutual funds, respectively. This interest is taxed at your marginal tax rate which is the rate of tax charged on your last dollar of income earned.

Foreign income

There are no special tax breaks on foreign income, whether it's in the form of interest earned or dividends, making this investment vehicle on par with the high tax rates paid on Canadian interest noted above, but with a twist. On foreign dividends, some tax is withheld before the dividend is paid to the investor. The tax withheld goes to the government of the company's country of residence. Not to worry – this tax creates a credit that can reduce your Canadian tax owing, eliminating double taxation in most cases.

Dividend income

Dividends are the money paid by corporations to shareholders from after-tax earnings. Compared to interest income, Canadian dividend income gets preferential tax treatment thanks to the gross-up and tax credit system currently in place. Speak to your advisor to better understand how gross-up and tax credits apply to dividend earnings.

Capital gains and losses

Capital gains come with the ownership of capital property, which can be investments like real estate or shares in a company. Imagine that you purchased shares in a hot tech company for $10,000, and then a year later you sold those shares for $15,000. The $5,000 increase is called a capital gain. The good news is that only 50 per cent of this growth is included in your taxable income. So, you would only be taxed on $2,500 rather than the full $5,000. The tax liability for capital gains can be reduced or eliminated in a couple of ways:

- Offsetting capital gains with capital losses from other investments
- Donating securities to a registered charity or private foundation. Capital gains related to donating eligible securities are not included as taxable income.[1]

To recap, interest and foreign income is taxed annually at an investor's marginal tax rate, Canadian dividends are taxed at

[1] www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/personal-income/line-127-capital-gains/completing-schedule-3/determining-your-taxable-capital-gains-losses/gifts-publicly-traded-shares-stock-options.html

ARCA FAMILY ANNOUNCEMENTS

We recently welcomed back Beth Lockhart to Arca. Beth has joined the Osborne team as an associate on the investment team.

Denise Thoman has also recently joined Arca as our new receptionist.

If you would like to receive the newsletter by email rather than paper, please let us know by emailing inquiries@arcafinancial.com and stating 'newsletter by email' in the subject line.

lower rates, and capital gains are taxed only when realized, typically when an asset is sold.

Putting it all together

Understanding how taxes apply to common investment vehicles is also important. Such assets may include mutual funds, exchange-traded funds (ETFs) and segregated fund contracts. When the investor sells any of these asset types, the result may be a capital gain or loss.

Starting with mutual funds, any distributions an investor receives while holding a mutual fund will be taxed differently depending whether the fund is structured as a trust or a corporation. In the case of a mutual fund trust, distributions are taxed according to the nature of the distribution, which can be a capital gain, dividend, interest or foreign income. Mutual funds structured as corporations pay either Canadian dividends or capital gains dividends.

ETFs are traded like a stock and can invest in a wide range of securities that can generate different investment income. Like mutual fund trusts, distributions can include interest, foreign income, Canadian dividends and capital gains. Such income is taxed accordingly.

If you are invested in segregated fund contracts, then the allocations you receive are taxed according to the allocation (dividend, interest, capital gain, etc.).

As always, when it comes to your investments, consider your financial goals, the amount of time you will invest and your tolerance for risk.

TFSAs AND RRSPs

Other important investment vehicles that offer tax advantages include Registered Retirement Savings Accounts (RRSPs) and Tax-Free Savings Accounts (TFSAs).

RRSP contributions are tax deductible, the income earned within your RRSP is not taxed until you begin to withdraw the funds at retirement, when you are likely in a lower tax bracket. Also, you can contribute to a spousal RRSP to income split if you expect your spouse to be in a lower tax bracket when withdrawing the funds and save even more tax.

A TFSA is a great way to invest money tax-free with the flexibility to tap into your savings without penalty at any time. Every Canadian over the age of 18 is eligible to contribute up to the maximum annual amount, plus any unused amount from previous years. The maximum annual contribution for 2019 is $6,000.

Feel confused or overwhelmed? Your advisor can help you make sense of the best tax strategy for your investments.

ARCA™ FINANCIAL GROUP

Manulife Securities Incorporated

Tel: 519-745-8500 • Fax: 519-745-8283

Bobby Barry
Investment Advisor, Branch Manager
Manulife Securities Incorporated

Dan Daigle, ***Hons. BBA***
Financial Advisor, Manulife Securities Incorporated
Life Insurance Advisor, Arca Financial Group Inc.

John Lunz, ***CFP, FEA, CIM***
Senior Financial Advisor and Associate Portfolio Manager,
Manulife Securities Incorporated
Life Insurance Advisor, Arca Financial Group Inc.

Chris Osborne, ***BA, CFP, CIM***
Financial Advisor, Manulife Securities Incorporated
Life Insurance Advisor, Arca Financial Group Inc.

Bill Vollmer, ***B.Math, CPA, CA, CFP, CIM***
Senior Financial Advisor and Associate Portfolio Manager,
Manulife Securities Incorporated
Life Insurance Advisor, Arca Financial Group Inc.

Manulife Securities Investment Services Inc.

Tel: 519-576-6764 • Fax: 519-576-6768

Rob Hooper
Financial Advisor, Manulife Securities Investment Services Inc.
Life Insurance Advisor, Arca Financial Group Inc.

Mark Leech
Senior Financial Advisor, Manulife Securities
Investment Services Inc.
Life Insurance Advisor, Arca Financial Group Inc.

Strategies for Fitter Kids
Trading screen time for fun exercise.

IT'S NO SECRET that children, like adults, need regular exercise. In fact, the Canadian Pediatric Society recommends 180 minutes of daily physical activity for toddlers and preschoolers, and 60 minutes of moderate to intense physical activity at least three times a week for kids aged five to 17.[1]

These days, electronic devices are a "normal" part of childhood. A recent study found that kids spend an average of 3.6 hours a day looking at a screen, whether it's a television, tablet or smart-phone.[2] Combined with the amount of time children spend in school, doing homework and sleeping, that doesn't leave much room to get in the recommended amount of physical activity.

So how can parents motivate their kids to get the exercise they need? Here are some strategies to consider.

Limit screen time

The Canadian Pediatric Society recommends less than one hour per day of screen time for children under five, and two hours or less for kids aged five to 17.[3] Consider setting a timer on your child's device to indicate when it's time to turn the device off. It's also a good idea to have another activity lined up for when screen time ends to help avoid lazy lounging.

Be a role model

When parents, grandparents, aunts, uncles and friends make fitness a part of their daily lives, they're leading by example. If you get moving yourself, not only will you reap the benefits, but your children may feel inspired. Have your kids cheer you on at a volleyball game or a race; let them see you heading to the gym, playing sports or riding your bike to work. Making fitness a normal part of your routine makes it their "normal" too.

Make fitness a habit

Consider implementing a regular fitness routine at home. For example, make Sunday bike day or go for a walk every night after dinner. Have a family dog? Think about establishing a rotating timetable for who takes Rufus for walks and when (perfect for older children). If you schedule the activity as you would a swimming lesson or a yoga class, it will become routine.

Make it fun

If kids think staying fit means doing something they don't enjoy, they likely won't be motivated to get moving. But if you show them how fun it can be, that's a different story. For instance, start an impromptu soccer game in the park or invite a friend along on a hike. Have a race and see who can get to the stop sign, tree or front door fastest, play a fitness video game (although this is screen time, it's active!) or turn up a great playlist and dance.

Let them choose

When it's their idea, they're a lot more likely to be enthusiastic about it. Letting your kids pick a fitness activity they are interested in can give them some extra encouragement. Just be prepared to follow through on whatever they choose – whether it's with hockey equipment, martial arts classes, circus school, ballet costumes or fancy swimming goggles.

No matter what strategy works best for you, getting your children active now ensures they form healthy habits that will last a lifetime.

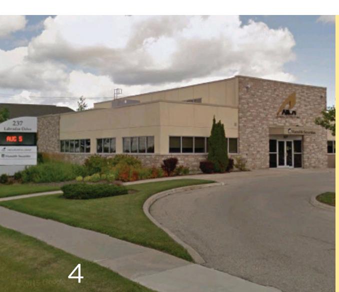
Get outside

Whether you plant a garden with your child or send them outdoors with sidewalk chalk or a basketball, getting them out into the fresh air is key. Let your kids explore nature in the backyard, visit the local park or plan an excursion to a nearby nature reserve. Regular outdoor activity has many benefits for their physical and emotional development, such as helping to build confidence, promoting creativity and helping reduce stress and fatigue.[4]

Offer incentives

Think about how adults will go out of their way to get to 10,000 steps on their activity tracker. Why not try something similar with your kids? Smaller children often love sticker charts – for every hour of physical activity, put a sticker on the chart. Once the chart has five, 10 or 15 stickers, your child can "win" a small prize. For older children, try making physical exercise a task they can complete to earn extra allowance dollars.

[1] www.cps.ca/uploads/active/AKHK_Guide_Physicians.pdf
[2] www.ctvnews.ca/lifestyle/too-much-screen-time-too-little-horseplay-for-kids-study-1.4111385
[3] www.cps.ca/uploads/active/AKHK_Guide_Physicians.pdf
[4] https://activeforlife.com/dr-vicki-harber-why-our-children-need-nature



ARCA™ FINANCIAL GROUP

237 Labrador Dr.
Waterloo, ON N2K 4M8
T: 519.745.8500
F: 519.745.8283
Toll: 877.745.8500

Regular Office Hours:

8:30 am to 5:00 pm Monday to Thursday
8:30 am to 4:00 pm on Friday

www.arcafinancial.com

Arca Financial Group is a proud member of Barrington Wealth Partners