

THE Guardian

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Winter 2018

BITCOIN: BOOM OR BUST?

Bitcoin mania seems to have gripped the world, as the digital currency's price has reached astronomical levels. Seven years ago the cost of one bitcoin was 10 cents USD. In 2017 alone, the price of Bitcoin rose from \$1,000 at the beginning of the year to over \$20,000 in December. The price has since dropped dramatically to below \$8,000 in early February.

So What Exactly Is Bitcoin?

Bitcoin is one of many cryptocurrencies but by far the most prevalent, comprising roughly 48% of the cryptocurrency market.

Much like cash, Bitcoin can be used to buy and sell items and services. There are however several key differences between Bitcoin and cash.

- i) There are no coins or bills. Bitcoin only exists online.
- ii) There are no governments or central banks controlling the supply of Bitcoin. Bitcoin is produced by supercomputers through a system called mining. Transactions are then stored on what is called a blockchain, which is held in thousands of locations.

Supporters of Bitcoin believe blockchain technology will advance to the point where one day, Bitcoin replaces cash as we know it today. They argue this means that its true value is even higher than its current market price.

While the utilization of Bitcoin has reached the point where you can purchase software from Microsoft or book holidays on Expedia, it is still a long ways away from widespread acceptance. Further, detractors feel that Bitcoin is experiencing a classic financial bubble.

Specifically, Bitcoin could become a victim of its own success. It has been highly popular as an investment, largely on the premise that the growth in its level of acceptance will increase dramatically. This popularity results in Bitcoin proving ineffective as a currency. Ideally, a currency is supposed to more or less hold its value, such that when you go to purchase an item or service, you know roughly how much you are going to

spend. With Bitcoin rising or falling by as much as 20% in a day, it makes it very difficult to monetize or value the price of the item you are planning to purchase. In addition, a belief that the value of Bitcoin will rise over time creates a disincentive to purchase something with it. Why buy an item with a precious Bitcoin today, if the Bitcoin will be worth significantly more in a week, month or year? So setting aside potential profits made on short term speculation, ultimately, if Bitcoin is unable to perform as it was designed to, the Bitcoin bubble just might burst.

The Risks

Clearly not for the risk averse, any potential investor should take into account the following:

i) Market Risk:

Stating the obvious, Bitcoin values can fluctuate dramatically. The cryptocurrency has seen wild swings in price in it's short existence. In 2014, the value fell by as much as 80% in one day.

If fewer people begin to accept Bitcoin as a currency, these digital units may lose value and could become worthless. There is already plenty of competition, and though Bitcoin has a huge lead over the other digital currencies that have sprung up thanks to brand recognition and venture capital money, a technology breakthrough in the form of a better virtual coin is always a threat.

ii) Security Risk:

Bitcoin exchanges are entirely digital and, as with any virtual system, are at risk from hackers, malware and operational glitches. If a thief gains access to a Bitcoin owner's computer hard drive and steals his private encryption key, he could transfer the stolen Bitcoins to another account.

Users can minimize this risk by utilization of a USB drive or other storage medium or using an offline Bitcoin hardware wallet.

iii) Regulatory Risk:

Bitcoins are a rival to government currency and may be used for black market transactions, money laundering, illegal activities or tax evasion. As a result, governments may seek to regulate, restrict or ban the use and sale of bitcoins, and some already have.

iv) Insurance Risk:

Bitcoin exchanges and Bitcoin accounts are not insured by any type of federal or government program.

v) Fraud Risk:

While Bitcoin uses private key encryption to verify owners and register transactions, fraudsters and scammers may attempt to sell false bitcoins.

In Summary, while investing in Bitcoin or other cryptocurrencies does provide the potential for huge profit, it is fraught with equally huge risk. Our advice to clients is invest only what you can ultimately afford to lose.

Marginal Tax Rates for 2018 (BC)

Taxable Income	Fed. Tax Rate (%)	Prov. Tax Rate (%)	Total Tax Rate (%)	Taxes Paid (\$)	Capital Gains (%)	Eligible Dividends (%) (actual not grossed)	Non-eligible Div. (%)
0 – 39,676	15	5.06	20.06	7,959	10.03	-6.84	9.23
39,676 – 46,605	15	7.70	22.70	9,532	11.35	-3.20	12.30
46,605 – 79,353	20.5	7.70	28.20	18,766	14.10	4.39	18.68
79,353 – 91,107	20.5	10.50	31.00	22,410	15.50	8.25	21.93
91,107 – 93,208	20.5	12.29	32.79	23,098	16.40	10.72	24.00
93,208 – 110,630	26	12.29	38.29	29,768	19.15	18.31	30.38
110,630 – 144,489	26	14.70	40.70	43,548	20.35	21.64	33.18
144,489 – 150,000	29	14.70	43.70	45,956	21.85	25.78	36.66
150,000 – 205,482	29	16.80	45.80	71,366	22.90	28.68	39.09
Over 205,482	33	16.80	49.80		24.90	34.20	43.73

Tax Credits

Personal Tax Credit

Federal 11,809 x 15% = 1,771

Provincial 10,412 x 5.06% = 526

Spousal

Federal 11,809 x 15% = 1,771

Provincial 8,915 x 5.06% = 434

Age 65+

Federal 7,333 x 15% = 1,068¹

Provincial 4,669 x 5.06% = 228

OAS Clawback

Starts at 75,910

Other Items

CPP & OAS Rates

CPP \$1,134.17/mo.

OAS \$586.66/mo.

RRSP Contribution limit

\$26,230

¹ REDUCED WHEN INCOME EXCEEDS \$36,976

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**REGISTERED RETIREMENT INCOME FUND (RRIF)
STATUTORY MINIMUM MONTHLY INCOMES BASED ON \$100,000
COMMENCING ONE MONTH FROM ISSUE**

Best Current Rate: 2.90% ¹

Age	1st Year	TOTAL PAYMENTS TO AGE 100	A R.R.I.F. can also be structured to pay a level income for a shorter period. Based on current interest rates, \$100,000 will produce the following monthly income. For 5 years:\$1791.00 For 10 years:\$924.00 For 15 years:\$647.00
55	\$239.00	\$185,444.46	
60	278.00	171,805.40	
65	334.00	159,821.02	
71	440.00	147,749.35	

**MONTHLY ANNUITY INCOMES COMMENCING
ONE MONTH FROM ISSUE BASED ON \$100,000 ¹**

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
65	\$538.80	\$488.18	\$526.49	\$485.44	\$440.41
70	634.37	565.35	601.98	550.23	495.56
75	752.22	667.36	677.90	624.21	570.92
80	936.24	818.91	776.25	725.42	675.77



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¹ CANNEX