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This is the Private Wealth Podcast with Manulife Private Wealth.

Speaker Participants

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Presentation

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Hello, everyone, welcome and thank you for taking time today to join us for Manulife Private Wealth's las webinar for 2020. As this year draws to a close, the events that shaped 2020 will no doubt go down in the history books. For many of us, we remember where we were and what we were doing on March 13th, the Friday before we were moved into work from home mode to slow down the infection rate from the coronavirus. Many will also remember March 23rd, when the stock market finally hit bottom after selling off sharply over a period of five weeks. Since then, time has taken on a different feel as weeks turned into months, summer turned into fall and here we are preparing to close the chapter on 2020. Navigating the investment backdrop has certainly been complex this year given the COVID-19 outbreak and the ultra-low interest rate environment.

At Manulife Private Wealth, we aim to simplify your life by leveraging our team of trusted professionals, so you feel better equipped when making financial decisions for yourself and for your clients. For those interested in a replay or in sharing the contents of this call with others, we are recording this segment and a copy of the recording will be available to participants on our web site at manulifeprivatewealth.ca, or LinkedIn, at Manulife Private Wealth. If you do have any requests or questions after this call, please feel free to contact a member of the Manulife Private Wealth Team.

Post the election outcome in the US, we saw uncertainty return to the equity markets as the recovery stalled and geopolitical tensions started to come back to the forefront. As you know, our macroeconomic strategy team works continually to identify themes that could influence the markets in the coming months.

Our first speaker, Frances Donald, is the Global Chief Economist, and Global Head of Macroeconomic Strategy at Manulife Investment Management. Frances and her team are responsible for coordinating and generating global macroeconomic investment research and analyzing potential opportunities and impacts on Manulife Investment Management's investments. Frances also coordinates macro research to assist Manulife's Global Asset Allocation Team in the development of their asset class forecasts.

Frances, I don't know about anybody else, but I'm really looking forward to your comments today. Over to you.

Frances Donald, Global Chief Economist, and Global Head of Macroeconomic Strategy, Manulife Investment Management

Wow, thanks, Leslie. That's a lot of pressure, I've got to admit, and this year has been filled with pressure. You know, we've seen things we've never seen before. You mentioned March 23rd, to me that's a key date because that's when Central Banks globally and particularly the Federal Reserve, initiated programs they had never used before in size and scope we have never seen before. So, I have felt like 2020 has been a tough year when it comes to macro strategy. And I think as I've mentioned on this call before, you know, economists are really having to re-evaluate the way they do this job.

A lot of the data that we traditionally use is too lagged or inadequate or distorted by strange developments related to COVID. We have no model comparison. I can't look back in history and tell you there was an environment exactly like this one that produced this sort of outcome. And so much of the economic outlook clearly depends on the medical outlook, so economists have really been over their skis on a lot of different ways. But in that period and over the past year, if you've turned into these types of calls or you've heard us or read us in other forms, you've probably heard our system to navigate this world. We created a roadmap that we call the Three Phased Recovery. And if we were in a room together, I would ask you to put up your hand if you've heard of us talk about it before. Don't worry, we're not doing that in its entirety today. My hope is that this roadmap has helped all of you just as it has helped all of us navigate our way through a really complicated macroenvironment.

So what I want to do today in a couple minutes, I'm going to try to be brief here because I'm here to listen to John Natale, one of my most favourite offerings at Manulife. I want to kind of position ourselves on this map and talk about what we can expect in the next month or two. And typically, when I do these types of calls, particularly for

this audience, I try to stay away from talking about what the next two to three weeks will look like. To me, that's noise and distraction. We don't make investment decisions like that. But I do think we need to prepare for a little bit of a rollercoaster in the next couple of months and know that even throughout all of this volatility, even throughout all of these noises, there are trades that work and there are portfolios that can be really well positioned for it.

So let's start at the beginning and let's just look backwards for a quick minute. I know, trust me, I make no friends with portfolio managers by talking about the past; that's now how we make money. But let's go back to what we deemed Phase 1, The Rapid Rebound, the first part of this recovery that we know began in about mid-April. This was when the first wave of re-openings occurred. Remember that first wave when we though the lockdown would be two weeks and we'd be out of it? And we knew from a lot of our high-frequency data that around April 15th to April 18th was when we were going to see the economies in Canada, the US and globally start to re-accelerate really sharply.

Now, the reason that I want to take a step backwards and think about that period that ran us from mid-April to August, is that there were two really key defining factors of what led to what looks like a very sharp V-shaped recovery and what led to this massive resurgence and in many ways historic rise in the equity market. And the first was that if you turned on the TV back in April, you would have seen a lot of economists talking about how this was the worst recession ever. And indeed, it was, but as a result of economists having these extraordinarily low expectations, the econ data became very easy to beat. And if you've been in markets long enough, you know markets do not care if economic data is good or bad, they care if it is better or worse than expectations. Back in April, May, June, the expectations were so low, the bar was so low, very, very easy to beat, very supportive of markets over that period.

And the second reason that that period was incredibly forceful, this extraordinary rebound and a lot of economic data came from something else we have not seen in this size and scope before, and that was the tremendous amount of government money that flooded the system. My most favourite statistic from this year, you might have heard me mention it before, but it just is so illustrative, is that in April of 2020, because of the amount of money that went into the mailboxes of Canadians and Americans, American personal income in the worst month of economic history in the past 100 years, personal income was up 14% year over year. Imagine that. The worst month in recorded history, and Americans were richer. In Canada, that number was closer to 11%; still really astounding.

Governments didn't just fill up that cup, they overfilled it. And as a result, not only were a lot of bills capable of being paid, not only did we see ongoing demand for things like housing and cars, but a lot of that money got put into savings. That's really clutch, because that high level of savings is helping to propel the economy even further into 2020.

So we called Phase 1 the Rapid Rebound, the period that lasted between mid-April and into August. And then if you followed our roadmap before, you know that in August, September, we called for the second phase of this period, what we call Phase 2: The Stall Out. Now, in Phase 1, we expected 60 to 70% of total economic data to come back online really, really quickly. In Phase 2, our view was that we would be stuck about 30% below pre-COVID levels. Part of that is the unwinding of the two factors that held us up in Phase 1. Now, the bar to beat is much higher. Just about everyone and their mother revising up expectations on everything from earnings to what the jobs numbers are going to be. But also, because a lot of that government money is running out or has expired, and we'll talk a little bit more about that.

Fundamental reason holding back our economies, though, is a really simple one, and that is lockdowns and social distancing. As long as we have social distancing in effect, companies, small businesses, the economy, cannot operate at full capacity, which means they will not be bringing as much revenue, they will not be bringing in as many hires, there will not be as much cap ex and investment happening in the economy. This is just a fact of life now. Think about restaurants that can only fill patios, hairdressers that can only bring in one client at a time. You know, these are the areas that are continued to be constrained.

So while we sit in Phase 2, waiting for the vaccine, the other side of the stall out, I know we all think about it every single day, when we get the vaccine this is what our life will look like. We have to think about the here and now. And the here and now is getting more complicated. Now, this period is defined by something that economists are increasingly calling the K-shaped recovery. You might have heard of this. And the K-shaped recovery, picture a K, everybody drops down, everybody partially recovers and then the economy gets divided into two. You have those that continue to accelerate in their V shape, and those that double-dip.

There is a lot of ways you can talk about a K-shaped recovery. You can talk about blue collar versus white collar. You can talk about men versus women. Women disproportionately dropping out of the labour force in this type of environment. The way that I think about it, is really the divide between manufacturing, which continues to accelerate sharply, and services, which may even be undergoing what we now think of as a W-shaped recovery or a double-dip. Why? Because the manufacturing part of the economy, the tech part of the economy, just doesn't have to operate with the same level of social distance restrictions on it as much as services does.

Getting this K-shaped recovery concept right is absolutely crucial. In part because it is really driving the difference between regions and sectors. Asia substantially outperforming the western world. We've never seen that before. In part because we've never had a services-based recession. Asia is substantially more manufacturing-driven, manufacturing-based, so they are outperforming the western world. Also, really critical because that stock market which people believe is "not the economy," it is a segment of the economy. It's the manufacturing tech side. So the longer we see this manufacturing outperformance in the economy, the longer we're going to see the outperformance of that stock market relative to the underlying economy beneath it.

This is really unprecedented. Every recession we've seen in history has been manufacturing-based, not services-based, so the indicators that we've used to tell us we're coming out the other side, things you may have heard of like PMIs or the ISM Manufacturing Index. Those are far less valuable to us than they have been historically. Again, our economic models are really muddied. We're having to look at unconventional data and make really new calls about what lays ahead.

In my intro, I talked a bit about why I'm a little bit nervous about the next few weeks. And I really am, I think heading into year end where we're at risk of seeing a lot of what my team would call event risks; big headlines that are complicated and more challenging. So one, of course, as I've said, the economic outlook depends on the evolution of the virus, and we're seeing virus cases surging globally. Places that we thought were fairly immune to the virus, places like Japan, are now going into lockdown. Toronto back in lockdown, New York closing the schools, California where you have to go home before 10:00 – the word is escaping me. Anyways.

There are a variety of other issues associated with this. One is that we don't see that same sort of personal income and savings rate as elevated as it was, and it seems as though American in particular are very close to drawing down the last amount of their savings. We are heading into a period where a lot of the programs that supported this economy, particularly in the United States but also in Canada, are at risk of expiring. In the United States, extended unemployment insurance benefits are set to expire at the end of December. Eviction moratoriums are set to expire at the end of December. And no real evidence that these are going to be recalibrated or implemented back in.

In fact, now we're in a fiscal air pocket, where it doesn't appear the US is going to be adding more government stimulus at all before year end. And while a new Biden administration may very well do that with some hiccups because they're at a split government, we do need to recognize that this fundamental support that has driven the economy this far really is stalling out pretty aggressively.

So typically, we would say, well, let's then rely on monetary policy, but monetary policy's ability to support this economy is very, very limited. They may be able to contain a little bit of a shoot-up in rates, they may be able to avoid corporate credit experiencing a credit event, but they are less and less capable of doing so. So the policy put underlying this market, to me, is a little bit more frail, a little bit more fragile than what we've seen. On top of that, we're expecting a little bit of a strengthening of the US dollar into year end, a strengthening of real yields, and all and around this is very extended sentiment and peak bullishness. Now, does this mean that we're expecting a giant stock market crash? Absolutely not! And there are some really big fundamentals that support this underlying market. What it means is there's going to be a lot of news and noise and volatility in the next six weeks or so.

So what do you do when you're faced with a lot of this turbulence? Well, in our view, what you do is you focus on what we call Phase 3: The New Normal. And trades that work, no matter the evolution of the virus, no matter the expiration of these programs, whether we get good news or bad news, where do we focus? Now, to me, a lot of those trades that make sense are things like deglobalization, a trend that we think will persist and was exacerbated by COVID. What does deglobalization mean? It's probably a little bit inflationary. It means that a lot of companies are going to choose to do business closer to home, pay a little bit more as sort of an insurance against disruptions in the future. That's something we should be monitoring.

We have the expectation that governments continue to spend in huge, dramatic ways, very large deficits, very high government debt, for a lot of reasons, but that would be something we would be watching. And what does that mean? It means governments are going to be issuing a lot of debt. The long end of the curve, that yield curve, is going to continue to steep, and a lot of interesting trades related to that.

And last but not least, no matter what happens in the next six months, the Central Banks are so far away from raising interest rates. We do not have any major Central Bank raising rates for the next five years. That's right, five years or rates on hold, even if we see inflation tip above 2% for a couple of months, even if we see better vaccine news. This, to me, is a very clear investable trend. What does it mean? It means we have to look outside government bonds into other asset classes. This is one of the main supportive equities. We have to allocate a little bit more than we would 10, 20 years ago. We have to think about alternative asset classes. Things like infrastructure, REITs, agriculture. Thinking outside the box is a really big part of how asset allocation on my team thinks about these investible trends.

So my message to you is, we're heading into a period where you might see a lot of headline news, a lot of reversals of sentiment, you might see some bumpiness,

but focus on the trades that work. Rely on the investment professionals you work with. There are environments and ways that you can make money, even in a market that has a lot of this volatility. Don't get distracted by it, just be prepared for it.

I'm going to stop right here, send it back to Leslie. I was hoping she could really sway us with more of her delightful intro, and I'm really looking forward, John, to hearing from you today. I always learn something. So thanks for having me on the call.

Leslie Brophy, AVP, Head of Investments and Sales, Manulife Private Wealth

Thanks, Frances. As always, very, very, very fascinating. This year has been unlike any other, and it's likely that tax planning is also going to be different for most Canadians. With no federal budget tabled in 2020 to introduce new or updated tax measures, the federal and provincial governments turned their focus on measures to support individuals, their families, and their businesses navigate the economic stress caused by the COVID-19 pandemic. As a result, many investors, professionals, and business owners will begin 2021 with questions about their tax situation and what they should or could be doing to prepare for year end tax planning.

At Manulife Private Wealth, with these webinars we host on a quarterly basis, we aim to help clients reach their goals through accountable expertise, preparation and solid foundations. In fact, this is how we measure our success.

Our next speaker, John Natale, is the Head of Tax, Retirement and Estate Planning Services, Wealth Team at Manulife. He and his team provide case level support on tax, retirement and estate planning matters to advisors across the country. He is a frequent speaker at industry conferences and seminars, and has appeared as a guest expert on industry podcasts and BNN Bloomberg TV. John has published numerous articles on tax and estate planning, and is co-editor of Canadian Taxation of Life Insurance.

Today, John will walk us through various tax considerations and potential strategies for dealing with such an unparalleled year. John's comments for today's webinar are prepared solely for your information. Manulife Private Wealth, Manulife and its registered representatives do not provide specific legal, accounting or tax advice, and the following information should not nor is it intended to be construed as such. John, over to you.

John, you're on mute.

John Natale, Head of Tax, Retirement & Estate Planning Services, Manulife Investment Management

You know, it happens to me at least once a day, usually not when I'm presenting, but thanks, Leslie. I would just say thank you very much for that wonderful introduction and taking part of my legal training back there and providing that caveat of disclaimers. So thank you very much, Leslie, I appreciate that.

I’m excited to be here today. Looking forward to year end, personally, I know my family is, they're doing some Black Friday shopping, so I'm afraid to see what's going on my credit card, but I'll try not to think about that.

So as Leslie mentioned, this time of the year people are – and rightly so – thinking about year end planning. And I would say this year – unlike any other year, due to COVID – the impetus or the importance for year end planning, I think, is heightened. And that’s because just like COVID has affected so many other areas of our life, it has also affected tax planning. It's also going to affect many individuals' income and their tax reporting. And there are a lot of nuances that people might not be aware of. If you've been following social media or the news or articles, you may be aware of some of the things I'm going to talk about.

One of the highlights or headlines I saw just this morning was that the CRA issued a statement that 213,000 Canadians may have to repay CERB overpayments. What's happened is – and it could be innocently, and that's what the CRA is assuming – is that people made dual applications both to Service Canada and CRA. So that's their estimate, 213,000 people. And if you don't repay it by the end of this year, those individuals are still going to get a T4A, so they're still going to have to pay taxes on it and then I assume they'll get a deduction or a credit somehow afterwards. The good news for them is the CRA has suspended any kind of collection payment efforts until the pandemic ends, but just to give you an idea as to the potential scope of the challenges that people are facing.

And so just to kind of build on that, I think, you know, one of the comments I want to make is, is with respect to COVID and a lot of these benefits that people may have received, whether as an employee or as an employer, their tax return next year when they file it, may look significantly different, both in terms of the income that they report, but also the eligible deductions. And furthermore, if you're an employee specifically, your source deductions and your withholding tax may look a lot different. What a lot of people don't realize is that CERB, while fully taxable, there was no withholding tax applied, okay. And now CERB has been replaced by three other benefits, same payment amounts, $500 a week if you qualify. Those do have withholding tax applied, but only of 10%. So better than zero, but only 10%. So whether that's an effective or an appropriate amount to withhold

will depend, obviously, on the individual's marginal tax rates.

But you could have situations this year of individuals who file their tax return next year who will actually have less income to report, but actually have more tax to pay or get a smaller refund. And again, that could be because their withholding tax is reduced, but there might be other reasons as well too. So think about situations where people make through their employer, they make group RSP contributions and they get a deduction for that. That deduction, if they weren't working ad were getting CERB instead, they're going to lose those deductions. And as well again, their withholding tax and their employment income, which would usually be a credit for their tax purposes, is no longer going to be applicable. So it's important for people to take that into account.

As well, if you're working less, so if you were on these government programs and not earning employment income, just keep in mind as well for 2021 RSP contribution purposes, you're probably going to have less earned income this year. Now, that's going to affect your 2021 RSP contribution. So when you're thinking about planning for 2021 RSP contributions, you need to take that into account. And I don't have a definitive statement, but everything that I read so far seems to suggest that CERB or any of these other benefits will not qualify as earned income, so they will not generate RSP contribution room for next year.

Another reason why people may have more tax to pay, even though they have less income, is they may have less deductions other than the group RSP. For example, if they normally had childcare expenses, their children are no longer going to daycare or they're working from home, those might be significantly reduced. As well, people who used to travel a lot for their jobs and no longer travelling a lot, any travel related expenses may also be diminished. So, I would strongly encourage, you know, highly urge individuals to start looking at what their 2020 tax return might look like and before year end engage in some of the planning ideas that we're going to talk about today.

And from an employer perspective as well, there are a couple of programs that the government produced that provided income or revenue to employers. There's the Canada Emergency Wage Subsidy and the Temporary Wage Subsidy, so you want to take those into account as well if you're looking at clients are in an employer situation. So, I strongly suggest that people, again, look or try to estimate what their potential tax level will be come next year, and then do whatever planning you need to do starting this year.

Now, before we get into tax planning, I do want to distinguish tax deductions versus tax credits. I think a lot of people know what they are; I think some people think they know what they are, but they really don't know what they are or don't understand exactly how they work. So really, at a high level, a tax deduction, for example an RSP contribution, a childcare payment, etcetera, interest expenses, the value of the deduction depends on your marginal tax rate. If you ger $1,000 deduction, you don't save $1,000 in taxes, you multiply the deduction by your marginal tax rate. So if you're in a 30% marginal tax bracket, the $1,000 deduction saves you $300 in taxes, okay. You can't go below zero, but it saves you $300 in taxes.

A tax credit is different. And there are refundable and non-refundable credits, and I'll explain those to you in a moment. But a tax credit is different. And example of a tax credit would be a dividend tax credit, a charitable donation is a tax credit, the pension income is a tax credit. And usually the way it works is the value of the credit, so for example if the pension income credit is $2,000 or if you make, let's say, a $2,000 donation, just keep the same number of $2,000 there, you usually multiply that by the lowest tax bracket. So federally that would be 15%. So if we use the pension income credit, you take the $2,000, assume you have $2,000 of eligible pension income that qualifies for the pension in come credit, you multiply that by 15% federally, and that generates a $300 tax credit. That will reduce your tax payable by $300.

Now, if it's non-refundable, and most tax credits are non-refundable, a charitable credit is non-refundable, the pension income credit is non-refundable. If it's non-refundable, then it can't reduce your taxes. If your credits exceed your taxes payable, you can't generate additional refund. If it's a refundable tax credit, then even if your tax credits exceed your taxes payable, you can still generate a refund. That's really the difference between the two. Again, so I just wanted to clarify a tax deduction versus a tax credit, but we're going to talk about both today.

So, the first think I would do, is if you have individuals who are looking to reduce their taxes payable for 2020, and particularly again those individuals who might be negatively impacted by COVID, I would look at your My Assessment on CRA and see if there's any carry forward amounts such as tuition, charitable donations, moving expenses, student loan interested. Those are things that are always important to take a look at. Also, RSP contributions. What contribution room do you have, if any, because that can be a very powerful tool to reduce your taxable income.

The other thing I would look at, and is probably the most common strategy that people use, is realizing capital losses. And this year has been a very volatile year. I hope you don't have clients who are in a loss position, but I think the reality is that many if not all of you will have clients in a loss position. And those losses, however, can be valuable from a tax perspective.

Now, a couple of things to keep in mind with capital losses. When you realize a capital loss, it must be first used to offset capital gains in the current year, okay. So if you have excess capital losses, only if you have excess

capital losses, can you then carry them back up to three years. So if you realize a capital loss in 2020, you can carry them all the back to you 2017 tax year – again, only the excess part – or you can carry them forward indefinitely. Now, all things being equal, if your marginal tax rate is the same or roughly the same in all of those years and you had excess capital losses, I would bring it back to 2017 just because in 2021, 2017 will fall off the table and you will no longer be able to carry back capital losses to that year. So keep that in mind.

The other thing that's very important with capital losses is taking into account the settlement date. It's not trade date that's relevant, rather it's settlement date. Settlement date, generally speaking, is 2 days. So if you're going to realize a capital loss to offset capital gains in 2020, the trade must happen by December 29th. So very, very important.

Another thing that people often get tripped up when it comes to capital losses, is if you buy foreign stocks, let's say something on the Dow Jones or NASDAQ, and it's US dollar, take into account a foreign currency. Very, very important. Your clients may have purchased that stock or foreign investment when the Canadian dollar was at par with the US dollar and now it's – I don't know what the latest numbers are, let's say it's $1.33. So even if the investment has gone down in US dollars, by let's say 5%, well, you have a currency gain of 33%. So it's very important to keep that in mind because you may be thinking you're realizing a capital loss, but in fact you're actually realizing a capital gain. So do the calculations before you do that, before you engage in the loss.

The other thing that's very important when it comes to capital losses, is a rule called the Superficial Loss Rule. This is a tricky rule. We have a piece of this on our web site, I encourage you to take a look if you're interested, or reach out to Leslie or somebody else and we can help you find it. The way the Superficial Loss Rules work is that if you qualify, it's a superficial loss, which is what you don't want to qualify for. But if you do, your capital loss will be denied and generally would be added to the ACB of the re-purchased investment.

So the most common example I would share with you is someone, for example, in a situation right now they bought something, the market's gone down – let's say it was in March, for example – the market's gone down, so you're down 10 or 20%. You say, oh, you know what, I'm gonna sell and realize my loss, but I really like this investment, so I'm going to sell and realize my loss and buy right back in just to kind of crystalize that loss. Well, in that situation, you're going to probably trigger the Superficial Loss Rule. So what happens is your loss will be denied and it will be added the adjusted cost base of the re-purchased investments.

So the technical explanation – bear with me here – the technical explanation is, you realize a capital loss and within a period that begins 30 days before and extends to 30 days after – so a total of 61 days, 31 days before, the current date of the capital loss and 30 days after – within that 61 days window, you repurchase an identical investment and on the 30th day after your sale where you realize the capital loss you still hold it, okay. So it's a couple of tests. So if you have that scenario again where let's say I bought something on February 15th, the market goes down, let's say on March 15th I sell it for a capital loss, okay, I realize my capital loss and let's say on March 16th I buy right back in, then I hold it for 30 days after my March 15th sale, well, I've triggered the Superficial Loss Rules and that the loss that I realized on March 15th will be added to the adjusted cost base of the units I purchased on March 16th, so you really want to be careful about that.

But what a lot of people don't realize is the Superficial Loss Rules also apply to affiliated persons, not just to you. So affiliated persons include your spouse, any corporations controlled by you or your spouse, partnerships that you and your spouse control, and trusts that you and your spouse control. And when I say trust, I also mean RSPs, RIFs, TFSAs, RESPs, RDSPs. So be very, very careful.

So for example, I sell a non-registered investment, I realize a capital loss and then I transfer the cash into my TFSA or my RSP or my wife buys the same investment within her RSP or RIF, it doesn't have to be just me who buys within my RSP or RIF within that same period. Well, then I'm going to be caught under the Superficial Loss Rules. My loss will be denied. And worst case scenario when it comes to RSPs, RIFs and TFSAs, etcetera, the adjusted cost base doesn't go up by the amount of superficial loss, it's wasted in an RSP, RIF or TFSA, so you actually get a double whammy, so you want to be very careful about that.

I had a friend of mine I was talking about these rules, and he actually did a transfer in kind. They moved investments that were in a loss directly to their RSP, and that loss was obviously denied as well too. So be very, very careful with that.

And with corporations, be very, very careful as well. Because with corporations, we have something called a Capital Dividend Account. And if you realize a capital gain within your corporation, 50% is taxable and the other 50% that's not taxable is added to a notional account called a Capital Dividend Account, and that's a very powerful account. That account allows you to pay out a tax-free dividend, a capital dividend, to shareholders. However, if you realize a capital loss within your corporation, then what happens, unfortunately, is that the Capital Dividend Account goes down by 50% of the capital loss, and now you've lost the opportunity to get that money out of your corporation tax-free. So be very careful about realizing a capital loss within your corporation. Before you were to do that, I would strongly encourage you to reach out to the client's tax advisor to make sure

they've completely flushed out the Capital Dividend Account and paid out a capital dividend.

There is a really neat strategy, though, where you use the Superficial Loss Rules against itself, which is always kind of nice when you kind of turn the tables on the CRA. And this would be a situation where you may not have a capital gain to offset or to use the capital loss, but your spouse does. Or, your spouse might just be in a much higher tax bracket, have significant non-reg investments and the ability to offset capital gains with capital losses might be very attractive to them in the future. You can actually transfer capital loss to your spouse. And you actually, again, like I said, you use the Superficial Loss Rules against themselves.

So the scenario would be, I have an investment, a non-reg investment, it's in a loss position, it's underwater, but my wife, let's say she has capital gains that's she's realized that we want to offset and I don't. Somehow, that's actually more true in reality than I like to admit, but anyway. So she has capital gains that she wants to offset, I saw my investment today, I realized a capital loss. My wife buys the exact same investment in the same amount on the open market, she holds it for 30 days, so Superficial Loss Rules kick in, my loss is denied, my loss is added to her ACB and then after she waits the 30 days, she can sell and assume that the market value stays roughly around the same value, she'll realize the capital loss and then can use it offset her capital gains. So very, very powerful a strategy. The only thing is, you have to wait 30 days. So in order to get that in before the end of 2021, you don't have a lot of time, so keep that in mind.

There are a few people who have talked about actually realizing capital gains in this environment right now if you're in a very low income tax bracket, if you have significant losses this year. If you are going to realize a capital gain anyway some time in the near future and you think that they're going to increase the capital gains inclusion rate, that's a bit of a gamble, I wouldn't do it just because of that reason, but if it kind of fits in anyway, that might be something to consider.

Another tax planning strategy that's very important and I think very relevant in these COVID times, because I've been reading articles about charities that have been struggling with donations is charitable donations. You obviously get a tax credit when you make a charitable donation. A couple of simple tax strategies. The first $200 or charitable donations, you get a credit at a low rate and then anything over $200, you get a credit at a much higher rate, usually near the top rate. So a simple thing you can do is between spouses you can pool your donations, so you only have that $200 threshold once.

The other thing, actually, from a tax planning perspective that's really neat, is you can actually donate securities in kind: stocks, mutual funds, segregated funds. If you donate in kind, the capital gain, the pregnant gain or the accrued growth, there's no capital gains. There's nil or zero capital gains inclusion rate, and you still get the full value of the charitable donation. So whatever the fair market value of the investment is, you get a charitable receipt for it and you don't have any capital gain to worry about. So that's a kind of a really neat strategy.

A couple of other ones I'm going to kind of talk to you really quickly just for you to consider. Obviously, RSP. Look at your RSP contribution room. If you have RSP contribution room, you might want to think about making a contribution this year. You don't have to wait until the first 60 days of next year to claim it for 2020. Sometimes sooner is better so you have more tax deferred growth. I mean, you want to weight how much the value of that deduction is now. And just keep in mind, you don't actually have to use the deduction now, you can actually use the deduction at any time in the future.

For clients who are turning 71 this year, in 2020, a couple of really neat strategies. If they have contribution room, you want to think about making an RSP contribution by December 31st because after this year, they will no longer be able to contribute to their own RSP, they'll be too old. They can contribute to a spousal plan if they have a spouse who is under age 72, but they'll no longer be able to contribute to their own.

If you have somebody, for example, who's got $30,000 or room, they might not want all of the deduction right now. I would still consider – and again, it depends on the tax number – contributing the whole $30,000 to your RSP now and you can claim the deduction whenever you want. You can claim $3,000 a year for 10 years. You can claim $10,000 a year for three years. You don't have to claim the RSP deduction in the year you made it. So very important.

If you have individuals who are still working – and I know many people are working – so they're generating RSP contributions for next year. What you could do, again, if the RSP contribution makes sense, is actually make a contribution in December of this year, you'll be in an overcontribution position, but calculate what your room will be or the additional limit you're going to get next year so that as soon as January hits, you'll no longer be in an overcontribution perspective because the income you earned in 2020 will generate the RSP contribution limit to 2021, so you just have penalties to pay, a 1% penalty pay on the overcontribution. Any overcontribution more than $2,000, you have a 1% penalty to pay. But for some people, that makes a lot of sense.

Spousal RSPs are still a great tax planning strategy. I would consider those. And again, like I mentioned before, even if you're over age 71, if your spouse is under aged 71, you can contribute to a spousal RSP, so you want to think about that as a potential strategy. Again, especially if there's an income disparity between you and your spouse, it's a great income-splitting strategy.

If you're looking for things to do with your money, think about potentially an RESP contribution or an RDSP contribution if you have a family member who's in that situation. Again, tax-deferred goals for them as well. And as well, in order to qualify for the grant, they look at it on a calendar year basis. So if you're able to make a contribution this year, you can get the grants for 2020. And if you have carry-forward grants, perhaps you can capture 2019 grants if you make a sufficient amount of contributions. You do want to be careful as well about the beneficiary of an RESP or of an RDSP, if they're getting too old. It's over age 15 for an RESP and over age 49 for an RDSP. You may lose the ability to grab some of those grants, so you want to be sensitive about the age of the beneficiaries of an RESP or an RDSP. So think about that.

If you're trying to reduce your income, I would also think about strategies where for your RIF, for example, you can use the younger spouse's age. So if you want to maintain maximum flexibility for your RIF, think about a strategy where you use your spouse's age for the calculation of the RIF minimum. You can always take out more, but the RIF minimum now will be at a lower amount, so it gives you that additional flexibility. As well, if it's still applicable – and it probably isn't – but if there's a situation where you still have that flexibility and it's of interest to you, there is a one-time 25% reduction in your RIF minimum this year because of COVID. So if you haven't used that feature or that benefit and we still can, that would be something that I definitely would consider.

And there's a whole bunch of kind of little ones, kind of quick-hitters here I'm going to kind of throw out to you just for you to consider. And we do have a piece, actually, that capture most of the things I talked about today, of 2020 tax tips, and we can share that with you if you want. You know, pay any investment counselling fees that you may have. The deduction for those is eligible when you pay it. So it's important that you've got to pay them before the end of 2020. So any administration and management fees, any interest expense as well, they're deductible when they're paid. Childcare expenses, again, if you have eligible childcare expenses, they are deductible when they're paid.

Think of a scenario – and this is going to be my situation shortly, so I'm looking forward to taking advantage of this – think of a scenario where you have children over the age of 18 and some under the age of 16. You could actually qualify to pay that child that is over the age of 18 childcare expenses for watching your children under the age of 16 to allow you to earn income.

Another really neat strategy from an income spending perspective or a tax planning perspective is gifting assets to adult children. There are no attribution rules when you gift assets to adult children, so the income can be reported in their hands going forward. Just keep in mind you can't force them to give the money back to you, so that's a big caveat with that. But if they're in a lower tax bracket, that's something to consider. If you're going to give them the money anyway, why wait till you pass away, perhaps? You know, if you're already in the top tax bracket, perhaps give them some money now. Maybe they're struggling because of COVID, maybe they just had a child, maybe they want to upsize their house. So you can think about that strategy.

We have a couple of other ones as well. There's the prescribed great loan. You can lend money to your spouse at 1% or to a family trust for a minor beneficiaries or other beneficiaries. As long as you pay the interest back by January 30th of the following year, any growth over and above the 1%, any income over and above the 1% prescribed rate is taxed in the lower income earner's hands. That's kind of a really neat strategy to income split.

Watch year end deposits. What year end deposits to mutual funds, segregated funds, because they'll have a year end distribution or a year end allocation, so you want to think about that if you're making a year end deposit. If you don't want that year end distribution to kick in, maybe you put it into a money marker fund until the new year and then at the end of the year move the money over to the fund of your choosing and that way, you'll avoid the year end distribution.

Think about if you're thinking of buying an interest-bearing investment, like a GIC or a GIA, if you wait till January of 2021, then the income that you earned will not be reported until January of 2022. So you actually get a year of deferral, so you don't actually have to report any income in 2021 on that GIC or GIA that you bought in January of 2021. So kind of keep that in mind.

And as well, lastly, if you've been forced or you have clients who have been forced to work from home and those that have already been working home will be familiar with this – but there's a form called a T2200. But if you have clients who have been forced to work from home because of COVID, and I'm one of those individuals, if they're working primarily from home now, they may be able to deduct part of their home expenses like electricity, heating, if they rent their accommodation, then rent. You can't deduct mortgage interest or property taxes or home insurance or depreciation, but again, they can maybe deduct some of those utilities that they had to pay and that can be a nice little benefit to working from home.

So I feel like I've given you a whole bunch here all at once. Again, we do have some pieces on this that will go through what I was talking about earlier in this conversation. But I hope that helps and, you know, a penny saved is a penny earned. And all I can say is, you know, good tax planning I hope for you and your clients.

Leslie Brophy, AVP, Head of Investments and Sales, Manulife Private Wealth

Thanks, John. Without a doubt, 2020 has been a unique year on so many levels. That said, at Manulife Private Wealth, we appreciate that high-net-worth investors have a broad range of wealth management needs which call for specialized skills to help manage their complex financial situations. Combined with foresight, planning and expertise, clients of Manulife Private Wealth enjoy access to the professionals at Manulife, like our guests here today, to take care of their investment needs through MPWs investment management expertise and capabilities, as well as help with their private banking and wealth and estate planning needs to meet their financial goals.

On behalf of Manulife Private Wealth, I would like to thank all of you on the call today for your ongoing support and continued interest in learning how Manulife Private Wealth can help you and your clients navigate this unusual investment landscape. As you know, we are firm believers in helping customers achieve their goals through active investment management.

We hope today's comments were insightful for you as we head into the new year. To learn more about Manulife Private Wealth's investment platform or how to access the specialized expertise of the team working with Manulife Private Wealth, please reach out to a member of the Manulife Private Wealth team. On behalf of the team, thank you for joining us today. I hope you and your families have a safe, healthy and happy start to the new year.

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