January 2024 Financial Planning Email Update

I wish you and your entire family a Happy, Healthy and Prosperous New Year!

There are two new and related tax rules that may affect you:

1. The Underused Housing Tax (UHT)

The Underused Housing Tax is an annual **federal** 1% tax on the ownership of vacant or underused housing in Canada that took effect on January 1, 2022. The CRA has extended the deadline for reporting to April 30, 2024 (for both 2022 and 2023). At first glance you would think this would only impact foreign property owners. Actually the affected owners are foreign and non-permanent resident owners of residential property in Canada as well as Canadians who own residential property through a trust, private corporation or partnership. Affected owners must file a UHT return but may be exempt from the tax itself if the property qualifies under a qualifying occupancy or other exemption, the most significant being the owner is a Canadian citizen.

Where some Canadian citizens may be required to file a UHT return is in the area of trusts. A formal and documented trust is obvious but what is not as obvious is what is known as a bare trust. A bare trust is a specific kind of trust in which the trustee has no obligation other than to deal with the trust property as instructed by the beneficiaries. The legal title of the trust property is held by the trustee, but the beneficiary has the beneficial ownership of the property. There are two cases in which a bare trust may unknowingly be formed. First, an adult child is put on title for a residential property by their parent for estate planning purposes, and the parent continues to live in the house as the beneficial owner, a bare trust arrangement is created. As the property is owned by a trust, the trustee as the legal owner of the property must file a UHT return. However if the parent is a Canadian citizen, the trust is considered a specified Canadian trust and no UHT is payable. Secondly, a parent co-signing a mortgage or taking a partial ownership in an adult child's home may constitute a bare trust. The parent becomes a legal owner and the adult child is the beneficial owner. Again if the adult child is a Canadian citizen the trust is exempt from the UHT.

Although owners of multi-residential properties of more than three units are not subject to the UHT rules, if the affected owner such as a foreigner, trust or private corporation owns a muti-residential property where each unit has a separate ownership and registered title such as a condominium, a UHT return must be filed for each unit. Again if these separate owners are Canadian citizens no tax is owing.

Currently the penalty for late filing of a UHT return is $5,000 for individuals and $10,000 for corporations for each residential property. There is a proposal that the maximum penalty could be $1,000 but is not confirmed by the CRA at this time. Also the CRA interest rate being charged on overdue tax is 10%.

For further details here is the link to the CRA UHT:

https://www.canada.ca/en/services/taxes/excise-taxes-duties-and-levies/underused-housing-tax.html

2. New T3 Trust Return Requirements:

Beginning for the year ending December 31, 2023 the CRA has laid out new reporting requirements in which the trustee(s) of a bare trust (subject to a few exceptions) must file an annual T3 return. So those circumstances explained above will now also be required to file a T3 return which will include a Schedule 15 defining all beneficial ownership. There are two additional situations which did not previously require to file a T3 return. First if an adult child is added to the ownership of an investment account for estate planning purposes a bare trust is deemed to have been formed. Also, in the case of an "in trust for" investment account this informal trust will now be required to file a T3 return. This T3 return will have a filing deadline of April 2, 2024 (due to Easter) which normally would be March 31 each year. Even if no taxes are owing the penalty for late filing a T3 return is $2,500 or 5% of the property's value, whichever is greater.

If an "in trust for" account or a bare trust has been in existence for less than three months, or that hold less than $50,000 in assets throughout the tax year (provided their holdings are limited to deposits, government debt obligation, and listed securities) they *may be exempt* from the new T3 reporting requirement.

Kristina Hooper Chief Global Market Strategist with Invesco recently reported the following:

After nearly two years of fighting inflation across North America and Europe, we believe monetary policymakers have reached the end of their tightening cycles — but the ripple effects of past rate hikes continue to be felt. And so our 2024 investment outlook centres on the balance between the durability of growth versus the stickiness of inflation. For Western developed economies, we anticipate continued disinflation in 2024, with an economic slowdown in the first half followed by an economic recovery in the second half. Meanwhile, China and Japan are in a very different position.

Despite rapid interest rate hikes over the course of 2022 and 2023, many developed economies continued to grow and have only recently begun to show signs of strain. As we move into 2024, we expect the global economy to slow marginally, with a bumpy landing for major developed economies materializing in the first half of the year. We expect outcomes will vary by country — the US has been the most resilient to the effects of tightening policy and credit conditions, while growth in the eurozone and United Kingdom is already flagging.

However, we expect the slowdown to be shortened by a turn in monetary policy as inflation gradually subsides. We believe monetary policymakers have now reached the ends of their tightening cycles. The next step is likely to be easing for major central banks in Western developed economies, which we expect to emerge late in the first half of 2024 as growth slows and inflation continues to move towards acceptable rates. This should help a recovery to take shape, in our view, returning the global economy toward trend growth in the second half of 2024 as real wages rise in response to lower inflation.

Meanwhile, the Chinese economy is in a remarkably different position. Policymakers are seeking to stabilize growth after optimism around its post-COVID opening was tempered in 2023. We believe appropriate policies can improve the economic picture and expect Chinese authorities to marginally expand fiscal policy in 2024 to stabilize growth rates.

In our view, Chinese growth is likely to be subdued in the first half and improve in the second half, resulting in a year-over-year real growth rate of around 4.3% to 4.7% for the economy.

Japan is also in a very different place. We expect the Bank of Japan (BOJ) to continue to hold back on material tightening because there are significant uncertainties over the sustainability of rising inflation (after all, the BOJ has been faced with false inflation dawns in the past). However, the BOJ is likely to start tightening marginally during the first half of 2024, in our view. We also believe that the BOJ will likely tweak its yield curve management policy to prevent knock-on effects from outsized increases in volatility in global bond markets.

There is a modest risk that significantly higher inflation may force the BOJ to tighten significantly, which could drag up global bond yields and strengthen the Japanese yen.

We see the potential for two alternative outlook scenarios that focus on the balancing act between growth and inflation and resulting reactions from policymakers:

We see two potential drivers for a “hard landing”: an already-committed policy mistake or persistent inflation that spurs more tightening.

- In the first instance, the long and variable lags of policy tightening could prove too much for Western developed economies to handle in 2024. In this event, we would expect weaker growth and faster disinflation.
- Or, more persistent inflation could require policymakers to keep rates higher for longer, resulting in a greater economic effect than we currently anticipate.

In either case, the investment implications would be similar, but near-term experience would likely differ — long duration bonds and equities would likely outperform sooner in the first scenario because we would likely see faster policy easing but underperform in the persistent inflation version.

We also consider an upside scenario for the United States in which supply-side shocks dissipate or are already gone, and mild cooling on the demand-side enables inflation to ease. In this “soft landing” scenario, we are already in (or even in the process of exiting) a mid-cycle slowdown, from which we reaccelerate in the first half of 2024.

Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning. I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns, that you would like to discuss or review, please do not hesitate to contact either Amanda or I by email or by calling the office at 519-894-2661 or toll-free at 1-800-716-5538.

Have a great day!

Respectfully Yours,

Gary

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