

NetWorth

A sudden windfall. A blessing, not a burden.

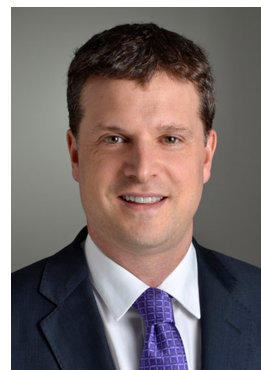


A windfall can be defined as the unexpected or unplanned acquisition of financial assets that alters the recipient's financial position. This can be a welcome surprise, but the pressure of managing and dealing with a significant amount of money can also be an unforeseen burden.

A California-based psychologist coined the term sudden wealth syndrome to describe the psychological issues associated with the unexpected acquisition of wealth. While coming into money should be a good thing, providing an opportunity to achieve happiness, many people who have suddenly become wealthy are overwhelmed; they start to overspend, grow suspicious of those around them and make poor decisions that lead to personal conflict and financial ruin.

Who can expect a windfall?

There are many ways to get a windfall. Winning the lottery is the most obvious reason that comes to mind, but this accounts for a very small percentage of those individuals who have experienced a financial windfall. For most Canadians, however, the most likely sources of significant and abrupt gains of money are an inheritance, a settlement due to divorce or injury, the sale of a business, or an insurance payout.



Let's connect

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More Canadians are going to get a windfall

Canada is forecast to see roughly \$1 trillion in personal wealth transferring to the next generation between 2016 and 2026, with roughly 70% of this sum in the form of financial assets. In the last decade, the numbers of high net worth individuals and the value of their wealth in Canada have been trending upward. In 2017, the percentage of high net worth Canadians in the population – those with at least US\$1 million in assets, not including their primary home – increased by 5.5% and their total wealth increased by 7.2% to US\$1.2 trillion.

Stay calm and think about your future

A windfall may invoke feelings of excitement or duress, depending on the circumstances. For instance, receiving an inheritance or winning a lottery could be exhilarating, whereas a legal settlement from a divorce or accident is likely to be traumatic. Initially, you may be tempted to make impulsive financial decisions based on the sudden acquisition of wealth that later prove to be unwise or ineffective in hindsight. While some people may do nothing because they are overwhelmed by their sudden wealth, others may make impulsive decisions they may later regret. It is important to slow down and think about your financial goals and priorities, and to try and picture how this newly acquired wealth could affect you, your friends and family, and the causes that are important to you.

Tips for managing a sudden windfall

If you receive a sudden windfall, the best thing to do first is...nothing! This is easier said than done. Initially, it will be exciting to have this new-found wealth, and you will want to celebrate and splurge, perhaps treating yourself or your family to a special vacation. Depending on the size of the windfall, you may be able to give in to that urge to do something spontaneous and still have a considerable fortune left over. Afterwards, you may want to consider these tips for managing a sudden windfall:

- **Take your time, and make a plan.** Park the money and think about the future you want for you and your family.
- **Assess your new-found wealth.** For example, an inheritance might have special terms, and property settlements, life insurance payouts, business monetization events, and the receipt of retirement assets each come with their own set of tax and legal considerations.
- **Talk to your family.** This will help prevent an over-reaction by family members, such as quitting their jobs.
- **Establish a wealth plan.** Consult with a trusted team of wealth advisors to address your financial goals and priorities.
- **Pay off your debts.** Especially those with high interest, or consider a debt-swap strategy.

- **Establish an emergency fund and a budget.** If you don't already have one, now is a good time to put one in place.
- **Be aware of the impact of taxes** – is the windfall taxable? For instance, lottery winnings in Canada are not taxable. Neither is a life insurance payout to a beneficiary. Inheritances are generally not taxable. However, consider the income tax consequences on the deceased bequeathing property. Property bequeathed to a surviving spouse can be transferred on a tax-deferred basis with no tax impact to the deceased, commonly known as a 'spousal rollover'. Property bequeathed to a child or a 3rd party may result in income taxes owing to the deceased's estate. For instance, any accrued capital gains on non-registered investment assets will be realized on death and the market value on death of certain registered assets, such as RRSPs or RRIFs, are fully taxable. Any accrued capital gains on a principal residence is exempted from tax to the deceased, whereas accrued capital gains on a bequeathed income property or other properties (such as a cottage or secondary home) is realized and taxable to the deceased. However, the same 'spousal rollover' exception exists when these properties are inherited by a surviving spouse.
- **Consider using insurance to preserve your wealth or minimize taxes.** This could enable the transfer of property that has appreciated in value, such as a family cottage or a business to the next generation, instead of being liquidated to cover the final tax return of the deceased.
- **Update your estate plans** and/or succession plans for a family business.
- **Share the wealth.** It feels good to help others, and there are tax benefits realized in making charitable donations or establishing a long-term giving vehicle such as donor-advised fund or foundation that connects with causes that are important to you.
- **Be aware of scams** and those looking for handouts, and prepare yourself to handle them effectively and gracefully.
- **Define your legacy,** and provide guidance if you want your family to continue it.

Conclusion

A sudden windfall may provide opportunities, demand new priorities and bring changes to the lives of you and your family. With patience and planning, you can approach and manage this new wealth with the confidence of achieving all that is important to you.

Source: BMO Wealth Management. December 2018. A sudden windfall. A blessing, not a burden. BMO Wealth Planning: Insight. Retrieved from <http://bmo.com/wealthreports>

Wealth planning news announcement

TFSA contribution limit increased to \$6,000 for 2019

The annual contribution limit for TFSAs will be increased to \$6,000 for 2019; this is up from \$5,500 in 2018. The TFSA annual contribution limit is indexed to inflation, and rounded

to the nearest \$500 based on the consumer price index provided by Statistics Canada.

As a result of the limit increasing to \$6,000 in 2019, the cumulative TFSA contribution limit will be \$63,500 for a Canadian resident who has never contributed to a TFSA and was at least 18 years old in 2009.

2019 Top Personal Marginal Income Tax Rates

The attached table outlines the 2019 top combined federal and provincial/territorial marginal personal tax rates. The rates apply to taxable incomes over \$210,371 in all jurisdictions except that the thresholds are \$220,000 in Ontario, \$314,928 in Alberta and \$500,000 in Yukon.

The most notable change for the 2019 tax year is a further increase in the non-eligible dividend tax rate for all jurisdictions (as a result of a further decrease in the federal small business tax rate originally announced in the federal government's 2017 Fall Economic Statement).

2019 top combined federal and provincial/territorial marginal personal tax rates

Province	Interest & Ordinary Income	Capital Gains	Canadian Dividends	
			(Eligible)	(Non-eligible)
Alberta	48.00%	24.00%	31.71%	42.56%
British Columbia	49.80%	24.90%	31.44%	44.63%
Manitoba	50.40%	25.20%	37.78%	46.67%
New Brunswick	53.30%	26.65%	33.51%	47.75%
Newfoundland and Labrador	51.30%	26.65%	42.61%	44.59%
Northwest Territories	47.05%	23.53%	28.33%	36.82%
Nova Scotia	54.00%	27.00%	41.58%	48.28%
Nunavut	44.50%	22.25%	33.08%	37.79%
Ontario	53.53%	26.76%	39.34%	47.40%
Prince Edward Island	51.37%	25.69%	34.22%	45.22%
Quebec	53.31%	26.65%	40.00%	46.25%
Saskatchewan	47.50%	23.75%	29.64%	40.37%
Yukon	48.00%	24.00%	28.93%	42.17%

Continued

Interest Income vs. Eligible Dividends – 2019 Multipliers at Top Marginal Tax Rates (by Province/Territory)

Many clients choose to earn dividend income because of the preferential tax treatment provided for eligible dividends. The table below provides the 2019 top marginal tax rates by province/territory and the 'multiplier' which equates interest income to eligible dividend income. The top rates apply to taxable incomes over \$210,371 except that the thresholds are \$220,000 in Ontario, \$314,928 in Alberta, and \$500,000 in Yukon.

The 'multiplier' column calculates the additional amount of interest income that would have to be earned by an individual resident in each province (who is subject to tax at the top marginal rates for 2019) to equate this after-tax interest income to the amount of after-tax income retained from earning an eligible dividend.

For example:

In 2019 for an individual resident in Alberta, eligible dividends are taxed at an effective top marginal rate of 31.71% whereas interest is taxed at the top individual rate of 48.00%. Accordingly, an Alberta investor would have to earn approximately \$1.3132 of interest for each \$1 of eligible dividends to be in the same after-tax position, as follows:

- \$1,313.27 interest income x 0.48 = \$630.37 tax which leaves \$682.90 after tax (i.e. \$1,313.27 – \$630.37)
- \$1,000 eligible dividends x 0.3171 = \$317.10 tax which leaves \$682.90 after tax (i.e. \$1,000 – \$317.10)

Interest Income vs. Eligible Dividends

Province	Top Personal Marginal Tax Rates		Multiplier
	Interest & Ordinary Income	Eligible Canadian Dividends	
Alberta	48.00%	31.71%	1.3132
British Columbia	49.80%	31.44%	1.3657
Manitoba	50.40%	37.78%	1.2544
New Brunswick	53.30%	33.51%	1.4238
Newfoundland and Labrador	51.30%	42.61%	1.1784
Northwest Territories	47.05%	28.33%	1.3535
Nova Scotia	54.00%	41.58%	1.2700
Nunavut	44.50%	33.08%	1.2058
Ontario	53.53%	39.34%	1.3054
Prince Edward Island	51.37%	34.22%	1.3527
Quebec	53.31%	40.00%	1.2851
Saskatchewan	47.50%	29.64%	1.3402
Yukon	48.00%	28.93%	1.3667



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