FROM THE DESK OF:
David Bardal, CLU®, CH.F.C®, CFP®
Senior Financial Planning Advisor
Juana Baldwin, CFP®, CHS, RRC
Financial Planning Advisor

Fall 2018

Assante Financial Management Ltd.

What a beautiful summer in Winnipeg! A lot of sunny summer days, and a reduced amount of mosquitoes!

As we head into the Fall, we often start to reminisce on the year; have we achieved our goals, are we on track with our cash flow, is our income what we thought it would be…

This is often a good time to complete a planning update, and re-evaluate if any changes should be made. If you have not already booked a meeting and would like to do so, please give our office a call.

Upcoming Events:

Retirement Income Workshop – Plan now for a tax efficient income that lasts - October 11th, 2018

Business Owners Luncheon – November 11th, 2018 With Brad Charlton of Assante Estate & Insurance

Client Education Event – coming November 2018

PERSONAL-USE PROPERTY: OFTEN OVERLOOKED BUT STILL SUBJECT TO TAX

The Institute Edition 309
May/June 2018

The sale of a capital asset for proceeds higher than the property's adjusted cost base (ACB) results in a capital gain, 50 percent of which is generally included in income as a taxable capital gain. However, the opposite is not automatically true. A capital loss on personal-use property is not deductible and cannot be netted against the taxpayer's capital gains.

Personal-use property is property purchased primarily for the personal use of the taxpayer and the taxpayer's family. For example, this could include a home, cottage, car, boat and personal effects. In general, personal-use property is not purchased for profit or gain, but rather for the taxpayer's (and his or her family's) personal use and enjoyment.

However, the idea that it is for personal enjoyment does not eliminate the potential for tax consequences when the property is disposed of. To begin with, there is a principal residence exemption available for the disposition of qualifying personal homes. For other personal property, in simple terms, a special rule deems the ACB of personal-use property to be the greater of the property's actual ACB and $1,000. As such, if the property's actual ACB is less than $1,000, the deeming rule will automatically bump it to $1,000 when calculating the capital gain or loss realized on the disposition of the personal-use property. Similarly, the proceeds of disposition for personal-use property are deemed to be the greater of the actual proceeds and $1,000.

Generally, all gains on personal-use property, after applying the deeming rule, are taxable while losses are not deductible (except for listed personal property discussed below). Consider the following example where this year Ashley disposes of two boats that she has owned for many years.

	Boat A	Boat B
Facts		
Original Cost	$750	$1,500
Actual Selling Price	$1,600	$850
Calculation		
Proceeds of distribution	$1,600	$1,000 a
Adjusted Cost Base	$1,000 b	$1,500
Capital gain (loss)	$600	($500)

a: Deeming rule bumps the proceeds of disposition from $850 to $1,000

b: Deeming rule bumps the ACB from $750 to $1,000

The resulting taxable capital gain on the disposition of Boat A is included in the taxpayer's reportable income. The capital loss realized on the disposition of Boat B is not deductible against the taxpayer's income nor is the capital loss netted against the capital gain realized on Boat A.

The general theory is that the majority of personal-use properties do not typically appreciate because they are often property that is consumed and tend to depreciate over time such as a car or furniture.

A subset of personal-use property is classified as listed personal property (LPP). The main difference between regular personal-use property and LPP is that there is an investment element associated with LPP and its value is not necessarily consumed through the taxpayer's enjoyment.

The rules in respect of capital losses realized on LPP are modified from regular personal-use property. Specifically, capital losses realized on

LPP can be netted against capital gains realized in the same year on LPP. Net capital losses realized on LPP can be carried back three years and claimed against capital gains on other LPP. Alternatively, net capital losses realized on LPP can be carried forward seven years and claimed against capital gains realized on other LPP in those years.

The definition of LPP is very specific because each type of property classified as LPP is defined specifically in the *Income Tax Act*. LPP includes:
a. A print, etching, drawing, painting, sculpture, or other similar work of art;
b. Jewellery;
c. A rare folio, rare manuscript, or rare book;
d. A stamp; or,
e. A coin.
Consider the example of Martin who sells two paintings from his art collection in the same year.

	Painting A	Painting B
Facts		
Original Cost	$800	$1,500
Actual Selling Price	$1,200	$500
Calculation		
Proceeds of distribution	$1,200	$1,000 a
Adjusted Cost Base	$1,000 b	$1,500
Capital gain (loss)	$200	($500)

a: Deeming rule bumps the proceeds of disposition from $500 to $1,000

b: Deeming rule bumps the ACB from $800 to $1,000

The $500 capital loss on Martin's disposition of Painting B will fully offset the capital gain realized on the disposition of Painting A. The difference of $300 ($500 loss on B less $200 gain on A) can be carried back three years or forward seven years and claimed against any net capital gain realized on the disposition of other LPP in those years.

This is an area that is often overlooked because taxpayers must self-report these transactions as there is no T-slip associated with personal-use property. However, a taxpayer is obligated to report the capital gain realized on the disposition of personal-use property and failure to do so could result in penalties and interest. Capital losses realized on LPP should be reported because they may be able to offset capital gains realized on the disposition of other LPP.

This article was written by Deborah Kraft and Jim Kraft and was published in the 292-2015 issue of COMMENT. Posted with permission from the Financial Advisors Association of Canada (Advocis) and The Institute for Advanced Financial Education.

This commentary is published by The Institute in consultation with an editorial board comprised of recognized authorities in the fields of law, life insurance and estate administration.

I was awakened in the middle of the night this week by a blaring "amber alert" on my cell phone. As I was jolted out of a deep sleep, I was reminded that the normal course of our lives can sometimes suddenly be disrupted. These disruptions could be health issues, financial circumstances or pressures, and they may involve you or perhaps someone close to you. As Mike Tyson once said, "Everyone has a plan until they get punched in the mouth!".

I would strongly suggest that having a well thought out financial "readiness:" plan is a very worthwhile investment of time and energy.

Please give us a call and let's book your next financial review meeting.

HOLIDAYS & BUSINESS TRAVEL

Office Closed:

- Thanksgiving – Monday, October 8th
- In Lieu Remembrance Day – November 12th

Juana Vacation

- December 10th – 17th

Business Travel

- Juana in BC October 18th – 25th
- David in BC October 21st – 25th

The Fall is a beautiful time of year.

Thanksgiving is a great time to inspire us to celebrate what we have to be thankful and grateful for.

It is a time of family and gatherings, enjoying the summers harvest, pumpkin spice treats, fall casseroles and baking, and of course the return of football and hockey.

As your family gathers, it is also a great time to set up a time for a family meeting. We encourage you to share your end of life and legacy plans with your family, as well as reviewing and updating your Financial Organizer.

As a child knowing what my parents wishes are and that I can honor them means a lot to me. As a parent to an adult child, knowing that I have prepared him to handle my affairs if I am not longer able to provides peace of mind.

If we can be of assistance as you prepare for a family meeting, or if you would like us to mediate your family meeting we are happy to do so.

Both David and Juana are always happy to meet with new people and provide a second opinion on their current financial strategies. Do you know someone we can help? Have them give us a call!