Weekly Updates Issue # 570

1. Weekly Markets Changes
2. Canadian businesses, economists weigh impact of Brexit vote
3. Four things to watch as Brexit shakes global economy
4. CPP boost to cost feds $250M per year
5. Vancouver property investors face vacancy tax
6. What are the federal tax obligations when buying, selling property?
7. What changes are coming to the CPP?

1. Weekly Markets Changes

[June 24, 2016]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
13,891.88 -9.89 -0.07%	2,037.41 -33.81 -1.63%	17,400.75 -274.4 -1.55%	4,707.98 -92.36 -1.92%	$0.7757 -0.56¢ -0.72%	$1,319.10 +17.50 +1.34%	$47.57 -0.69 -1.43%

2. Canadian businesses, economists weigh impact of Brexit vote

[June 24, 2016] Canadian businesses, investors and economists confronted the prospect Friday of one of Canada's biggest trading partners exiting the European Union and what it will mean for their operations and the economy at large.

Economists say the so-called Brexit vote will mean short-term volatility on world markets and a decrease in investor appetite for risk, prompting a likely strengthening of the U.S. greenback at the expense of the Canadian dollar. On the other hand, they say interest rates in the U.S. States probably won't climb as previously expected, a stabilizing factor for the loonie going forward.

"This is bigger than just the U.K. and that is why it is having such ramifications globally," says Pedro Antunes, deputy chief economist of the Conference Board of Canada. "I think the concern in global markets is not just about Brexit, it's not just about the U.K. deciding to leave, it's really about the further political ramifications this can have within the U.K. or within the European Union itself, especially the monetary union, which is already strained."

Trade in material goods between Canada and Britain is small and shouldn't be overly affected by the vote, Antunes adds. But Canadian companies that have set up offices or subsidiaries in Britain to gain access to the EU are

probably going to take a “wait and see” approach before making any further investments.
Energy analyst Greg Colman of National Bank Financial says the Brexit vote could lead to lower demand for oil and natural gas in Britain and Europe if their economies slow as expected. But he points out demand there has been falling for a decade and further deterioration won’t have much impact on the global energy demand picture.
He adds a stronger U.S. dollar will actually benefit Canadian exporters of energy to the U.S. who pay most of their costs in Canada. “Our (energy) supply-demand dynamics don’t really change that much, maybe a slight negative on the margin. The risk premium will increase, which will cause stocks to sell off, which makes good stocks cheaper and cheaper stocks are better to buy than more expensive stocks. And then on the currency side, you have this offsetting impact of the weaker Canadian dollar.”
RBC Economics says in a note to clients Friday that it expects a “muted” effect on the Canadian economy but the rise of risk aversion in markets will “put downward pressure on oil prices, government bond yields and the Canadian dollar.”
A TD economics report notes that Canada sends about 3% of its annual goods exports to the U.K. It says the Canadian regions most likely to be hurt by reduced British demand are Newfoundland and Labrador, which ships about 8% of its goods exports there, and Ontario, which sends about 6%.
Canadian companies issuing news releases in response to the Brexit vote said they don’t expect much disruption.
Aimia Inc., a Montreal-based company that runs the Aeroplan program in Canada and the Nectar loyalty program in the United Kingdom, doesn’t expect the Brexit vote or the weakness of the British pound to have a significant impact on its financial results in the medium term.
Winnipeg-based Great-West Lifeco — one of Canada’s biggest life insurance companies — says its European businesses “are resilient and we maintain significant financial flexibility.” The company’s Canada Life operation has had a presence in the United Kingdom since 1903. Other Great-West Lifeco units operating in the European Union include Irish Life in Ireland.

3. Four things to watch as Brexit shakes global economy

[June 24, 2016] Following Britain’s decision to leave the EU, markets are reeling. The vote was close, with nearly 73% voter turnout and 51.9% supporting the decision to leave.

And now, the U.K., EU and global economies are in for a rocky ride.

In the aftermath, the pound hit a 30-year low and its currently lingering around US$1.37 and CA$1.79, which compares to a high of almost CA$1.93 only yesterday.

British Prime Minister David Cameron announced his resignation shortly after the vote, saying, “The country requires fresh leadership […] In my view, we should aim to have a new prime minister in place by the start of the Conservative Party conference in October. […] This new prime minister takes the decision about when to trigger Article 50 [to] start the process of leaving the EU,” which could take up to two years.

The list of Cameron’s possible successors includes Boris Johnson, a U.K. Member of Parliament and a proponent of Brexit, and George Osborne, even though he backed the remain vote.

Around the globe, volatility spiked: in Europe, main stock indices fell by around 10% on the vote results. Domestically, the Toronto Stock Exchange dumped more than 300 points at open, reports CBC, while the Dow Jones fared even worse due to its average falling more than 500 points, reports Reuters.

To pad portfolios, Reuters adds, “Investors [who are] worried about the outlook for the world economy [have] sought refuge in the dollar and other safe-harbour assets, such as gold and U.S. Treasury bonds, while dumping riskier shares. The yield on the U.S. 10-year bond hit its lowest since 2012.”

So far, it’s unclear what the medium- and long-term effects of Brexit will be. But here are four things to consider.

Keep perspective and monitor medium-term trends.

Even though markets are reacting strongly, remember that Britain accounts “for just 3.9% of the world’s output,” reports The Economist.

But, says The Economist, it’s worth noting that “America’s economy has been sluggish of late and there are grave worries about China. […] Britain’s economy looms large in Europe, where it is a reliable consumer in an otherwise high-saving continent. Any disruption to European growth is particularly unwelcome now.”

What’s the outlook for interest rates globally?

Central banks will now move to damage control mode, says a CIBC Capital Markets release. “The Bank of England might cut rates as early as this Sunday and expansion of its quantitative easing program is a possibility.”

The big picture, it adds, is “earlier plans to tighten fiscal policy are obviously off the table [and] we might also see coordinated actions with other central banks to smooth currency movement.”

Further, "The ECB might cut again in July and the Bank of Japan might introduce another easing package. The Fed will probably shelve any plans to hike in September." CME Group's 30-Day Fed Fund futures prices show zero probability of a hike until December 2016.

In a statement to the press, reports Forbes, "[Bank of England Governor] Mark Carney reminded investors that banks in Great Britain had built hundreds of billions of pounds in liquid assets and equity capital in the years since the crisis. This fresh capital and these bolstered balance sheets will help Britain's banking industry withstand the Brexit market panic."

The Bank of England is ready "to provide more than £250 billion of additional funds through its normal facilities," as well as "substantial liquidity in foreign currency, if required."

And, are more referendums on the way?

Scotland's First Minister Nicola Sturgeon says the country isn't looking to leave the EU, reports Maclean's. But in response to Brexit, she says, "Scotland does now face that prospect [of a second independence referendum]—[this] is a significant and material change in circumstances—and […] the option of a second referendum must be on the table. […] When the Article 50 process is triggered in three months' time, the U.K. will be on a two-year path to the EU exit door."

There have also been mentions of Swexits, Czexits and Frexits, reports dailymail.co.uk, which notes, "Even if the union holds, the political earthquake that has erupted in Britain will have far-reaching aftershocks."

Finally, will Britain keep its global status?

Economic and regulatory changes could "affect London's status as Europe's financial services hub," says the CIBC Capital Markets release. "But there are many advantages that London has over its competitors, including the use of English."

The most obvious benefit of Brexit is "the elimination of the payments to Brussels," CIBC adds. "The other will be the ability to tailor various EU regulations to match U.K. needs."

But leaving the EU will have some short-term economic costs, ranging from "financial market jitters to real capital flows, as the EU is the source of some £500 billion pounds of direct investment in the British economy. Doubts about the post-Brexit environment could slow or reverse inflows while negotiations drag on for months or even years."

In fact, "a study by Open Europe found an exit without a replacement trade pact would trim U.K. GDP by 2% by 2030. But more likely outcomes involving replacement trade deals with the EU and/or other partners will leave the U.K. economy little affected by an exit, or even a small net winner under the best case scenario. [This suggests] Brexit isn't a make-or-break issue for the U.K. over the long-term."

4. CPP boost to cost feds $250M per year

[June 23, 2016] The federal government estimates it will cost taxpayers $250 million per year to offset the additional financial burden that expansion of the Canada Pension Plan will eventually place on low-income earners.

Ottawa and the provinces reached an agreement-in-principle this week to gradually increase CPP premiums as a way to boost the program's benefits for future generations of retirees.

The announcement also included a federal commitment to enhance its refundable "Working Income Tax Benefit" to help compensate eligible low-wage earners for the higher CPP contributions.

The Finance Department projects that change will cost about $250 million annually once the CPP premium increase has been fully phased in.

The federal government also says it will allow the provinces to make specific changes to the tax benefit so it's more harmonized with their own programs.

Due to this, Ottawa says it will continue working with the provinces and territories before implementing the adjustments to the tax benefit.

The Canada Revenue Agency describes the tax benefit as a refundable tax credit that provides relief for low-income individuals and families who are already in the workforce. The agency also says the benefit encourages others to enter the workforce.

Earlier this week, every province except Quebec and Manitoba agreed to the deal to expand the CPP.

The agreement states that CPP premium increases on workers and employees will be phased in over seven years, starting on Jan. 1, 2019.

Under the deal, the federal government also said it would provide a tax deduction — instead of a tax credit — on the increased CPP contributions by employees.

The CPP changes will increase the maximum amount of income subject to CPP by 14%, to $82,700.

The full enhancement of the CPP benefits will be available after about 40 years of contributions, the government said.

The income replacement rate will rise to one-third from one-quarter, meaning the maximum CPP benefit will be about $17,478 instead of about $13,000.

5. Vancouver property investors face vacancy tax

[June 23, 2016] Vancouver's mayor says he's prepared to go it alone if the British Columbia government doesn't help boost the city's near-zero vacancy rate by establishing a tax on empty homes as leverage against property investors.

Gregor Robertson announced Wednesday that he wants to give the province a deadline of Aug. 1 to join the city on a vacancy tax.

"The city will take action on taxing empty homes, with or without the help of the B.C. government," Robertson said ahead of a session next week when council will consider a report on taxing options.

He said Vancouver faces an "urgent" affordability crisis and a rental vacancy of 0.6%.

The city's predicament could be partially alleviated by taxing owners of about 10,800 empty homes that were bought as investments in the city's skyrocketing market, Robertson said.

"If we can get several thousand (units) on to the rental market in the near term, that's an enormous new supply that typically would take many years to build."

Robertson said if the province doesn't come on board, the city will establish its own business tax on empty homes. The city can do so under the Vancouver Charter, legislation that incorporates the city and grants it greater powers than other communities under the B.C. Municipalities Act.

Under the preferred route with the province, however, a joint levy would be administered as a new "residential vacant" property class through B.C. Assessment, the organization responsible for property assessments throughout the province.

The B.C. government has already collected large quantities of data on primary residences and rental income through the Homeowner Grant and income tax collection processes, Robertson said.

"We need action taken urgently to deal with this. I believe the province recognizes there is a great need," Robertson said. "It's frustrating there has been no action to date from either the provincial or the federal government."

Hours after Robertson's news conference, Finance Minister Mike de Jong said he's making arrangements to meet with the mayor on Monday to further discuss the suggestion he called thoughtful.

"There's a genuine concern on the part of all of us about the rental vacancy rate and the difficulties people are having locating rental accommodation, certainly in Vancouver," de Jong said in an emailed statement.

If the deadline passes without the province making a commitment, Robertson wants the city to charge the new business tax and divert the funds toward other affordable housing initiatives.

Thomas Davidoff, a housing economist at the University of British Columbia's Sauder School of Business, called Robertson's proposal a "half-measure."

"(It's) a step in the right direction, but probably hard to implement and not a broad enough base," he said.

He expressed frustration that the city didn't consider a plan released last January by dozens of academics from the University of B.C. and Simon Fraser University to counter the steep housing market.

It calls for a 1.5% property tax surcharge on homebuyers who don't live in the province and have limited participation in the Canadian economy.

Raymond Louie, vice-chairman of the Metro Vancouver Regional District, said the board has not taken a position on the matter of taxing empty homes.

"But I know through discussions with many mayors and councillors that housing affordability is a major concern within the region," he said in an email.

The Real Estate Board of Greater Vancouver said the benchmark price in May for detached houses increased to more than $1.5 million, a jump of nearly 37% jump from a year earlier.

6. What are the federal tax obligations when buying, selling property?

[June 21, 2016] The Canadian real estate market is active, particularly in some major Canadian cities like Vancouver and Toronto, says CRA.

But what are a client's federal tax obligations when buying and selling property? CRA provides busts the following myths.

Myth – CRA has a role to play in reducing housing costs.

Fact – CRA does not have any role to play concerning the affordability of real estate. CRA has no influence over market-based or economic forces that influence the cost of housing, such as supply and demand, construction costs and market speculation.

Rising real estate prices do, however, create an incentive for real estate flipping. CRA has dedicated resources to ensure compliance with the tax rules for property sales and other real estate transactions. The extent of CRA's compliance activities is detailed in How does the CRA address non-compliance in the real estate sector.

Myth – Real estate flipping is illegal.

Fact – Real estate flipping is not against the law. Flipping is a method of buying and selling real estate to earn income. Individuals may also use assignment clauses in real estate contracts to flip a property once or more before a final sale is made. However, all the money made on real estate flips, including real estate commissions and appreciation in value (the difference between the purchase price and sale price), must be reported to CRA.
Myth – The sale of a new or substantially-renovated home is GST/HST exempt if the home has remained vacant or has been occupied temporarily by the builder after it is completed.
Fact – In fact, generally, the GST/HST must be charged on sales of new or substantially-renovated homes that were built or substantially renovated for sale, even when the home has remained vacant or has been occupied temporarily by the builder after completion. Please refer to GST/HST Memorandum 19.2.1, Residential Real Property – Sales, for more details, including possible, limited exceptions. For more information on the GST/HST and housing, go to GST/HST and housing.
Myth – Non-resident real estate investors do not have to pay Canadian federal income tax.
Fact – A non-resident who sells any taxable Canadian property must notify CRA of the sale no later than 10 days after the date of the sale and pay an amount to cover the estimated taxes on that sale. A person's residency status is determined on a case-by-case basis by considering a number of factors which include:

- residential ties in Canada;
- purpose and duration of visits outside Canada; and
- social and economic ties outside of Canada.

7. What changes are coming to the CPP?

[June 21, 2016] In two and a half years, Canadians will gradually start paying more premiums into the CPP. In several decades, supporters say the "historic" CPP deal, reached Monday between Ottawa and most provinces, will boost retirement security for future generations.
Here are the forthcoming changes to the CPP.
Increasing the income replacement rate to one-third from one-quarter, meaning the maximum CPP benefit will be about $17,478, instead of about $13,000.
Increasing premiums on employers and employees by 1%, meaning an extra $408 a year coming off paycheques.
Increased premiums will be phased in over seven years, starting in 2019.

Increasing by 14% to $82,700 the maximum amount of income subject to CPP.
Expanding the refundable tax credit known as the federal working income tax benefit, to help low-income Canadians offset the increase in premiums.
New portion of employee contributions to CPP will be tax deductible (not a tax credit).
Only Manitoba and Quebec haven't agreed to the changes — yet. Federal Finance Minister Bill Morneau says Manitoba needs more time to examine the deal since its government was only a few weeks old.
Quebec operates its own sister program of the CPP — the QPP. Quebec can adjust the QPP as it likes, but has typically followed the CPP. Quebec Finance Minister Carlos Leitao says he will raise QPP premiums according to the CPP deal. He would also phase them in over the same period.
But unlike the broader-based CPP reform agreement, he says Quebec would only raise premiums on income earned above $27,500. That's why Quebec didn't sign the agreement-in-principle, Leitao notes.
What these changes mean
Industry experts have mixed feelings about the news.
The Montreal Economic Institute notes that the gradual expansion of the CPP and QPP will have significant costs for workers and employers, which will reduce Canadians' disposable income.
"Not only will middle class households see their disposable income fall during their working lives, but it is to be expected that they will reduce their voluntary saving as a result, for instance their RRSP contributions," says Youri Chassin, research director at the MEI.
The MEI adds the desire to expand the CPP comes from the belief that Canadians are not saving enough to maintain their standard of living in retirement. This notion, says the Institute, is completely false.
The standard of living of the poorest households is well-protected in retirement. Canadians who are less likely to maintain their standard of living after age 65 are mostly found among the upper-middle class and the well-off, who already have the means to see to their own savings.
Families include their houses as part of their retirement savings. In Canada, this non-financial asset represents over $1.8 trillion, which is much higher than the sum of all RRSPs and TFSAs.
Canada continues to distinguish itself among industrialized countries with a below average elderly poverty rate.
The poverty rate among the elderly is also lower than among the Canadian population as a whole.

"Instead of making saving mandatory for all workers, the federal government should make targeted changes aimed at those who really need help," says Michel Kelly-Gagnon, president and CEO of the MEI. "It could also encourage Canadians to work longer by indexing the retirement age."
Michel St-Germain, vice-chair of the Association of Canadian Pension Management's national policy committee, tells Benefits Canada that concerns about the deal remain. It would've been nice if the deal included Quebec but he suggests that when it comes to Manitoba, it may come on board in the future.
Meanwhile, IFIC supports the deal. "Reaching national consensus on such a complex issue is a notable accomplishment," says Joanne De Laurentiis, IFIC's president and CEO. "We commend the ministers for their commitment to building on Canada's strong retirement framework."
And Fred Vettese, chief actuary of Morneau Shepell, tells Benefits Canada that despite its complexities, "an expanded CPP will ultimately prove to be the right call."

Have a nice and fruitful week!