Weekly Updates Issue # 664

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1. Weekly Markets Changes

[May 18, 2018]

S&P TSX	S&P 500	Dow Jones	NASDAQ	CAD/USD	Gold	WTI Crude
16,162.31 +179.0 +1.12%	2,712.97 -14.75 -0.54%	24,715.09 -116.08 -0.47%	7,354.34 -48.54 -0.66%	$0.7764 -0.61c -0.78%	$1,293.05 -21.45 -1.63%	$71.28 +1.49 +2.13%

2. Annual inflation cools, but BoC core measure above 2%

[May 18, 2018] The country's annual inflation rate cooled slightly last month—but at 2.2%, it stayed hot enough to hover above the 2% midpoint of the Bank of Canada's ideal range.

Statistics Canada's inflation reading for April came in a little lower than the March number of 2.3%—which had brought the rate to its highest mark since 2014—and matched the 2.2% figure for February.

The upward pressure on inflation last month was led by higher costs for gasoline, air transportation and restaurants, while the biggest downward forces came from cheaper prices for digital equipment, travel tours and natural gas.

The report also says the average of the Bank of Canada's three measures of core inflation, which omit more-volatile numbers like pump prices, crept slightly above the 2%-mark last month for the first time since February 2012.

The central bank closely monitors inflation ahead of its interest-rate decisions and it can use rate hikes as a tool to help prevent inflation from climbing too high.

But the recent readings just above the central bank's ideal inflation bull's-eye are unlikely to have a major impact on upcoming rate decisions because governor Stephen Poloz has predicted inflation will remain above 2% for all of 2018.

In a separate report, Statistics Canada released its latest figures for retail trade, which showed an increase for a third straight month as sales rose 0.6% in March.

Since retail volumes were up "a healthy" 0.8%, CIBC managing director and chief economist Avery Shenfeld is calling for "a decent contribution to GDP in March alongside the solid news we already saw from manufacturing," according to a Friday research note.

"For GDP, March is shaping up to be a reasonable month, ending what would still be a mediocre Q1 with enough momentum to leave Q2 looking bright enough for a Bank of Canada rate hike in July," he says.

He cautions, however, that retail volumes were "no higher than they were back in mid-2017, so it's not clear that we have put the recent slowing in consumption behind us."

Inflation rates by province (previous month in brackets)

Newfoundland and Labrador: 1.5% (1.6%)
Prince Edward Island: 2.2% (2.4%)
Nova Scotia: 2.8% (2.4%)
New Brunswick: 2.2% (2.5%)
Quebec: 1.7% (1.6%)
Ontario: 2.1% (2.4%)
Manitoba: 2.9% (2.4%)
Saskatchewan: 2.5% (2.9%)
Alberta: 2.3% (2.3%)
British Columbia: 2.7% (2.6%)

3. Tax penalties tied to real estate increasing in Ontario, B.C.

[May 18, 2018] The real estate booms in Vancouver and Toronto have led to more than sky-high prices and surging housing demand. According to CRA audits over the last three years, there have also been "additional taxes related to the real estate sector," to the tune of $592.6 million.

Over that period, CRA reviews of more than 30,000 files in Ontario and B.C. have resulted in $43.7 million in penalties, says a Thursday press release. For 2017-2018 alone, "the CRA assessed $102.6 million more in additional taxes

than in 2016-2017. Penalties increased by $19.2 million from one year to the next," the release adds.
Most Canadians pay their fair share of taxes, says CRA, but the agency has detected some who are avoiding paying taxes related to real estate transactions.
One method is through "unnamed persons" requirements, which the CRA issues to property developers and builders who have information about buyers involved in a pre-construction assignment sale of condos. "This information is used to identify taxpayers who may not be reporting correctly for both income tax purposes and GST/HST purposes," the release says.
The agency says "buying a first home represents a great accomplishment" but that it's committed to "taking concrete action against those who break the rules."

Quick tax facts

- Builders of new and substantially renovated residences or rental properties are required to collect and remit the GST/HST to the CRA when they sell, rent out for the first time or appropriate the property for personal use. Additionally, purchasers of new residences must follow the rules when applying for new housing rebates.
- Property flipping is not illegal, so Canadians have the right to purchase and sell property for a profit. However, the income resulting from these transactions is considered business income and must be reported.
- The Canadian housing market is becoming more complex through pre-construction assignment sales and the real estate sharing economy (vacation rentals), and the CRA is committed to ensuring tax obligations are met.

4. HSBC discounts five-year variable mortgage rate

[May 17, 2018] HSBC says it is discounting its variable mortgage rate starting Thursday to a level that undercuts the recently discounted rates of other major banks, as competition in the space intensifies.
The bank says it will offer a five-year variable closed rate of 2.39%, down from 2.49% and 1.06 percentage points below its prime rate. It says there's no end date but that the rate could change at any time.
HSBC's lowered rate comes after TD Bank and Bank of Montreal started offering five-year variable closed rates of 2.45% in recent days at a heavy discount to their prime rate until the end of May.
Scotiabank says it has also started lowering its rate to match the limited-time offer of its competitors.

The moves come amid slowing mortgage growth. The Canadian Real Estate Association said Tuesday that national home sales volume sank to the lowest level in more than five years in April, falling by 13.9% from the same month last year. The national average sale price decreased by 11.3% year-over-year. Home sales have slowed due to various factors, including measures introduced by the Ontario and B.C. governments to cool the housing market, such as taxes on non-resident buyers.

Other headwinds for mortgage growth include higher interest rates and a new financial stress test that makes it more difficult for would-be homebuyers to qualify with federally regulated lenders, such as the banks.

The tighter lending rules are making it harder for homebuyers to qualify for uninsured mortgages and shrinking the pool of qualified buyers for higher-priced homes, CREA's chief economist Gregory Klump said in April.

Meanwhile, Canada's largest lenders all raised their benchmark posted five-year fixed mortgage rates in recent weeks as government bond yields increased, signalling a rise in borrowing costs.

In turn, the central bank's five-year benchmark qualifying rate—which is calculated using the posted rates at the Big Six banks—increased last week to 5.34%. This qualifying rate is used in stress tests for both insured and uninsured mortgages, and an increase means the bar is now even higher for borrowers to qualify.

5. Rental income and tax benefits make it worthwhile to be a landlord: CIBC poll

[May 17, 2018] The income and tax benefits from renting a property or space in a home are "worth the headache," says a poll by CIBC.

The poll found that homeowners with a separate rental property earn on average $2,189 per month—50% more than their monthly costs. Those who rent out space in their home reduce their housing costs by as much as 70%.

The poll says that 15% of Canadian homeowners are already landlords while 11% plan on becoming landlords; among millennial homeowners, 30% are already landlords and 17% intend to be.

Landlords say their main reasons for investing in real estate are:

- *generating passive income now (22%);*
- *generating passive income for retirement (28%);*
- *investing for long-term appreciation (20%);*
- *future occupancy by themselves or their children (14%).*

Along with the poll, CIBC published the report So, you wanna be a landlord: Tax considerations for rental properties by Jamie Golombek and Debbie

Pearl-Weinberg. The report outlines tax considerations for homeowners who have rental income or are planning to earn it.

Seventy-four percent of landlords believe the benefits of tax deductions make owning an investment property a good investment even if it carries a negative cash flow. However, landlords may not be able to claim those deductions if expenses exceed income on a regular basis, said Golombek, managing director of tax and estate planning at CIBC Financial Planning and Advice, in a release.

The report points out that landlords who own a separate income property can deduct both capital expenses (e.g. renovations and real estate commissions) over time and current expenses (e.g. insurance and interest) immediately. Landlords who rent out part of their primary residence to a tenant can deduct only a portion of their expenses, related specifically to the rental area.

Sixty-nine percent of landlords said they would discount the rental rate for family and friends. However, doing this could limit their ability to deduct expenses or claim a loss from a tax perspective, said Golombek.

6. Advisors should discuss guaranteed lifetime income with clients: survey

(Good morning sunshine! That's what I'm offering to my clients since 2005!)

[May 15, 2018] An increasing number of Canadians believe a guaranteed lifetime income supplement in retirement is a valuable addition to government programs—and that financial advisors have a responsibility to discuss it, says the 2018 Canadian Guaranteed Lifetime Income Study.

The study, the second by Greenwald & Associates and CANNEX, surveyed 1,003 Canadians aged 55-75 with investable assets of at least $100,000.

Less than half of the respondents (45%) are highly confident they will be able to maintain their standard of living in retirement until their estimated life expectancy of 85; almost one-third (29%) aren't confident they can maintain their standard of living.

The number of respondents saying they rate guaranteed lifetime income as "highly valuable" was 80%, compared to 60% in the 2015 survey. Three-quarters of women surveyed said a guaranteed lifetime income was highly important in meeting essential expenses versus 64% of men.

About one-quarter (24%) of respondents said they had heard about guaranteed lifetime income products from financial advisors, followed by financial institutions at 18% and the news media at 15%.

Three-quarters of those surveyed (73%) think financial advisors have a responsibility to discuss guaranteed lifetime income products to meet their retirement needs, and many said they would consider changing advisors if it wasn't discussed. Only one-third of respondents said they had had such a conversation with their advisors.

Of the respondents who had discussed retirement income with an advisor, 44% had a conversation about taking a constant percentage of their savings as income. Twenty-seven percent said income annuities and 16% said segregated funds were discussed as part of a conversation to provide guaranteed income.

"Among the three-quarters of respondents working with financial advisors, retirement income conversations are largely focused around asset withdrawal, investments with dividends, or fixed income strategies," said Sam Sivarajan, senior vice-president, wealth solutions at The Great-West Life Assurance Company, in a release. "The study shows that guaranteed lifetime income products, more often than not, aren't part of these discussions."

7. Tax on multimillion-dollar B.C. homes sparks debate

[May 14, 2018] The school tax increase, introduced in the B.C. budget, would be set next year at 0.2% on the portion of a property valued above $3 million. It would increase to 0.4% on the portion above $4 million.

For Lynne Kent and her husband, whose home is valued at $4 million, that would mean an extra $2,000 annually.

She and her husband are among a small group of homeowners in B.C. facing the tax bump on homes assessed at over $3 million who say they simply can't afford it—a claim that some are questioning.

"I think the whole property value escalation is more of an albatross than a benefit," said Kent, 71. "This whole escalation is really pushing us out of our home."

Kent and her husband bought their three-bedroom bungalow in the Kitsilano neighbourhood in 1972 or 1973 for about $40,000, which was their household income at the time. They renovated the 1923 home in 1982, themselves.

As retirees, they live on Canada Pension Plan and Old Age Security payments, plus some savings, she said.

They could sell their home, and are eligible to defer both the new tax and property taxes, but Kent says that's not the point.

"We raised our kids here, we have grandkids who are in university, who are part of our family life here. We hope to have great-grandkids here. It's our home. We didn't buy it as a money-making asset, we bought it as a home," she said.

Kent said she disagrees with the concept of deferring taxes on an ideological basis, since it means the province is stuck with the tab in the meantime.

“We want to pay our taxes. It’s not that we don’t want to pay our taxes, but we want them to be fair,” she said.

More reaction to the school tax

The school tax sparked a protest last week that prompted Attorney General David Eby, who represents many multimillion-dollar homeowners in the riding of Vancouver-Point Grey, to cancel a town hall because of security concerns.

An online petition with almost 13,000 signatures characterizes it as a cash grab on a “vulnerable minority” that disregards incomes, financial circumstances and the ability to pay.

But Brendon Ogmundson, deputy chief economist for the British Columbia Real Estate Association, says he thinks the tax has been blown out of proportion.

It will be rare that someone who owns a home valued at more than $3 million can neither afford the tax, nor defer it, he said.

“There’s going to be cases where it might be true, for whatever reason, that there’s a hardship. And the government should look at those cases. But in general, we’re talking about very wealthy households, whether they got there through income or the increase in their home prices,” Ogmundson said.

The tax will affect fewer than 3% of homeowners in the province, he said, and therefore won’t have much of an impact on the real estate market, if any.

Tom Davidoff, associate professor of strategy and business economics at the University of British Columbia’s Sauder school of business, said the tax is so low, relative to property values, that it will be negligible even after many years of accrual.

Davidoff said it’s a smart tax for places like Vancouver, where housing supply is limited and it’s difficult to build more because of limited space and zoning restrictions.

“If you tax a $4-million house, other than the person in the house who has to pay the money, which of course is a negative for them, nothing bad happens in the economy,” he said.

“When you do income taxes or sales taxes, you can chase away actual economic activity.”

Paul Kershaw, founder of Generation Squeeze, said the net wealth in homes today has increased in B.C. by over $650 billion in the past four decades. One-third of that wealth has gone to people over 65, and 5% has gone to people under 35, he said.

While he said he understand seniors’ concerns about the school tax, it’s a problem that many people would like to have.

"There are literally hundreds of thousands of younger British Columbians and renters of all ages who would love to see their standard of living shrivel before their eyes in a way that actually nets them over $5 million, while they were sleeping and raising their kids and watching their televisions and cooking in their kitchens, because that is how this wealth accumulation has unfolded," he said.

Even if the bubble bursts and the value drops by half, many of those homeowners will still have a couple of million dollars in their pockets if they sell, he said.

Some are still wary, however. Kris Sims, B.C. director of the Canadian Taxpayers Federation, says it could represent a slippery slope to an extension of the tax to less expensive homes.

And she pointed to families not unlike the Kents, who have children and want to pass their homes on to the next generation, which may not be able to afford the taxes on them.

From Sims' view, it doesn't matter if a home is assessed at $8 million. The homeowners don't deserve a "surprise" $16,000 new tax each year, she said.

"On paper, their homes have ballooned in assessed value," Sims said. "That is why this is really unfair, because it's based on assessed value, not (price) when it's sold."

8. FCAC report outlines best practices for consumer protection

[May 14, 2018] The Financial Consumer Agency of Canada (FCAC) has found a lack of consumer protection around unfair treatment, its report on best practices in financial consumer protection says.

While FCAC found Canada's overall federal financial consumer protection framework to be strong, it noted areas that could be strengthened, including addressing consumer protection in legislation, better supporting the supervisory and enforcement work of the agency with additional tools, and introducing targeted measures to better empower and protect consumers.

For example, the report notes that, according to the G20 High-Level Principles, financial consumers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers. Yet, no provincial consumer protection laws mandate that consumers be treated "fairly," in particular, says the report.

However, it also notes that the Autorité des marchés financiers is currently considering including fair treatment as an integral part of governance for provincially regulated financial service institutions offering credit.

Also, The Bank Act prohibits specific practices such as coercive tied selling or charging for products or services without express consumer consent. However, “there are currently no provisions requiring fair treatment of consumers or prohibiting unfair treatment,” says the report.

In March, FCAC released findings from a review of business practices across Canada’s big banks, following media reports last year of questionable sales tactics. That report said the banks had insufficient controls in place to mitigate risks of mis-selling.

The report on best practices comes in response to a request from the Minister of Finance that FCAC engage with provincial and territorial regulators and other key stakeholders to identify best practices in financial consumer protection in place across the country. Findings from the report will help inform the government’s work on a new financial consumer protection framework.

The scope of FCAC’s review focused on consumer protection measures that apply to financial products and services, such as credit products and deposit products. In parallel, FCAC assessed international best practices and the current federal framework.

Have a nice and fruitful week!