Focus Newsletter

Desjardins Wealth Management

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The true value of financial advice

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Vice-President and General Manager,
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For more than 31 years, Desjardins Securities and their teams have been protecting and growing the wealth of more and more clients. If your wealth manager's top priority is providing sound investment advice, your relationship with them probably goes well beyond buying and selling recommendations.

Most people are aware of the main factors that shape market trends. Inflation, which we've been hearing a lot about lately, interest rates, major banks, recession… But how can we use this information and, more specifically, how does it affect you?

> "Every person is unique and every milestone is different."

Are you and your partner getting ready to retire? That doesn't mean your wealth needs to be managed the same way. And that's where the value of financial advice, guidance and planning from a wealth manager takes on a whole new meaning.

By entrusting your assets to us, you're choosing peace of mind. You can rest assured that the assets you spent a lifetime earning will be protected and maximized thanks to our skilled experts.

Your wealth manager not only finds investment opportunities that fit your situation, they also help you develop the right instincts to understand and see past the financial headlines.

If you have any questions, concerns, or goals you want help achieving, don't hesitate to reach out to your wealth manager. Their job is to serve your interests and help you grow your family's wealth so you can enjoy life to the fullest.

Enhanced insurance offering

Recommending the right investment to the right person at the right time. That's what our wealth managers do on a daily basis. But did you know that our teams have partnered up with insurance experts who work with Desjardins Securities clients to help you find the right insurance? If you have questions about your insurance needs, whether you're with Desjardins or not, speak to your wealth manager.

Principal residence exemption: The million-dollar question

VINCENT SIGOUIN-MARQUIS
Financial Planning Advisor

There are a lot of questions surrounding the principal residence exemption, especially when it comes to which property you should use. Maybe you bought a cottage recently and you're wondering which one you should designate as your principal residence. Let's jump in and figure it out!

The tax exemption on capital gains for a principal residence saves you from paying taxes on all or part of the capital gains earned when you sell a property that qualifies as a principal residence, meaning you, your spouse, your former spouse or your child lived there at some point during the year. This is how you can calculate your exemption:

$$\text{Exemption} = \text{Capital gain} \times \left(\frac{1 + \text{number of years designated as principal residence}}{\text{number of years home was owned}} \right)$$

Focus on the average annual capital gain

Most people tend to designate their home as their principal residence because its fair market value (FMV) is higher. But you need to determine the average annual capital gain for both properties and designate the one with the higher amount.

Example:

	House	Cottage
Purchase	in 2010 for $300,000	in 2020 for $300,000
FMV in 2023	$650,000	$550,000
Years since purchase	14	4

The average annual capital gain for the house is $25,000 ($350,000/14 years) and for the cottage is $62,500 ($250,000/4 years), making the cottage the better option.

If the house were to be sold in 2023, it would be best to designate it as the principal residence only for 2010 to 2020, and to designate the cottage in 2021, until the year it sells. The extra year permits for the full exemption. For the years when you own both properties, the one with the higher average annual capital gain should take priority, which is the cottage in this scenario.

Note: The examples and scenarios in this article have been simplified to aid understanding.

For 2023, the taxable portion of the capital gains will be $25,000:

Taxable capital gains	=	($650,000 - $300,000) X 50%	= **$175,000**
		Less:	
Exemption	=	$175,000 X ((1 + 11) / 14)	= **$150,000**
Net capital gains	=	$175,000 - $150,000	= **$25,000**

In their 2023 tax return, the owner can pay additional taxes to lower their tax bill when the cottage is sold. Since the cottage's FMV and the year it will be sold are unknown for now, it would be worthwhile to see an advisor before making a decision.

Other things to consider

What happens in the event of death? Both properties will be considered as sold at that moment and the scenario remains the same.

Let's say you're the owner-occupier of a triplex and your unit takes up 40% of the building. The 60% portion that's being rented out isn't eligible for the principal residence exemption[1]. If the triplex was bought for $300,000 and sold for $800,000, the taxable capital gains would be reduced by the amount of the exemption representing the owner's unit:

($500,000 X 50%) – ($250,000 X 40%) = **$150,000**

Last thing to remember: Always keep your receipts for renovations done over the years. They may impact the calculations shown above. Talk to your advisor for more details.

[1] Aside from floor area, other factors can impact the relative value of each unit.

Three questions about the investor profile

MICHEL DOUCET
Vice-President, Investment Strategist
and Portfolio Manager

It's about more than just numbers. Here's how you can learn to "know thyself."

1. What's an investor profile for?

I like to think of it as a tool to help us get you where you want to go, and to determine *how* we're going to get you there. What are your priorities? School? House? Travel? Sabbatical? Retirement? Once we know that, we can focus on setting you up to achieve those goals. Your investor profile is like a compass, pointing you in the right direction and helping you stay on track.

But investor profile shouldn't be confused with risk tolerance. The latter is only an essential part of the former. To put it simply, your risk tolerance is based on how well you can handle bad news.

2. How to really know yourself?

It's not as simple as it sounds, is it? "Who am I?" "What direction do I want my life to take?" "What do I really want?" These are pretty philosophical questions that aren't always easy to answer. But the answers are a crucial part of investing. You may even feel a little overwhelmed when you start thinking about it.

The good news is that your wealth manager can help you figure things out. That's one of the reasons they ask you so many questions! They're fundamental questions that will lead you to concrete answers about your finances, taxes, estate planning and more.

3. Can an investor profile change over time?

It never stops, really. Every day, I learn a little more about myself. Likewise, your investor profile is always evolving, keeping pace with your life. The only constant in life is change, as they say. It can be a separation or an inheritance; maybe your child needs a hand buying their first home; or you may want to go back to work after deciding to leave the labour market… You always need to re-evaluate your goals and your plan. We're here to help you adapt. Hindsight and experience lead us to continuously question our decisions, and sometimes we choose a different path than the one we decided on 3 or 5 years ago.

> "Human connection is at the heart of sound financial advice."

That's why I always recommend that people review their plan with their advisor at least once a year. Family life, values, needs, dreams, cognitive and emotional biases… everything about you shapes the conversation between you and your advisor. You should be regularly updating them with the goings-on in your life. The more your advisor knows, the more precise their advice and recommendations can be.

Your wealth manager can navigate market noise, even weather a market storm. They'll listen to you, reassure you and help you improve your financial literacy. The investor profile helps remind us that human connection is at the heart of sound financial advice. The quality of the relationship between you and your advisor will determine how well you can articulate the various elements involved in managing your wealth.

Make the most of the FHSA, without (too much) effort

CATHERINE BOUCHARD
Senior Financial and Tax Planning Advisor

There are a number of reasons to open a tax-free first home savings account (FHSA). Here are our top 2 reasons.

Increase your RRSP contribution limit

Did you know that you can transfer funds from your FHSA to your RRSP without affecting your contribution limit? Sounds pretty good, right?

The FHSA is a registered plan that lets you grow your money tax-free. With an annual contribution limit of $8,000 and a lifetime limit of $40,000, the FHSA allows you to make $40,000 in tax-deductible contributions. This is a great opportunity if you're eligible, even if you don't intend on buying a home. The general rule is that you must not have owned and lived in a home as your principal residence in the year before you opened the account or in the preceding 4 years.

Combine the HBP and FHSA to multiply your savings!

The FHSA is a very good option if you want to help your kids buy their first home. You can contribute an amount to their FHSA based on their marginal tax rate.

Let's say your child contributes $2,960 of their own money at the marginal tax rate of 37%, and you contribute $5,040 to help them reach their annual contribution of $8,000. The beauty of the plan is that your child ends up breaking even when they get their tax return. As for the $5,040 you contributed, it ends up being more valuable than an inheritance of the same amount later on, and the investment income earned won't be added to your tax bill.

Your child can then use their tax savings to contribute to their RRSP, which increases the amount they have for a down payment when they use the HBP to buy a home. After 5 years, your child will have contributed $40,000 in their FHSA and $14,800 in their RRSP. If the rate of return is 5%, the amount accumulated after 15 years would be $102,248. Not bad for a down payment.

What exactly do we mean by "owner"?

If you own a rental property but have never lived there or if you own a cottage in, say, Îles-de-la-Madeleine where you spend your summer vacation, you're still eligible!

But if you live with your spouse who owns the home you live in as your principal residence, you are not eligible for an FHSA. You would have to open the account before you move in with your spouse. You could then use the FHSA to buy your share of the home or boost your retirement savings.

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Securities

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100%
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