

# TODAY'S ISSUES



*TODAY'S ISSUES is produced three times a year by Personal Wealth Strategies. It is a commentary on important taxation, business and economic matters of interest to clients and business associates of Personal Wealth Strategies.* ed.10/07

## HOLD ON TO THOSE GAINS A BIT LONGER

I was proud to be a Canadian as I sat and watched the pageantry on Parliament Hill prior to the reading of the recent Speech from the Throne. Politics aside, we really live in a culturally enriched and beautiful country. Being somewhat of a pragmatist, I also had my ear to the ground for any new thrust in tax policy. Canada is a prosperous country on the world's stage which always creates new challenges. Here are a few of them -

- ◆ Canada's dollar has broken through par which is great but that's tough on the manufacturing sector and Canadian jobs.
- ◆ Energy production is booming but we need capital and skilled people – perhaps some from outside the country who see good reasons to come to Canada would help.
- ◆ The federal government and all of the provincial governments are in surplus or soon will be.
- ◆ About 80% of our exports are to the USA - which is in decline.
- ◆ The US sub-prime debt problem is right next-door and could take the US into recession and us with it.
- ◆ China, Latin America and other developing countries are real players out there and are taking jobs from us.

Although we are obviously doing well, we must continually adjust and shore up our financial strengths because competition is fierce – especially for the manufacturing sector. We need capital and skilled people to come here to live and work and keep our economic engine running at top speed.

### Tax Cuts

So what's my prediction? Constant vigilance to our economic levers will help Canada move forward – lower taxes on both the personal and corporate side are a given. Incentives for capital investment must ramp up. On the personal side, there is room for reductions in overall rates, broader tax brackets and selective deductions. On the corporate side, deductions for investment and a lower corporate tax rates are needed. Mandates in the Speech from the Throne show some signs that the government is listening:

- ◆ An innovative and entrepreneurial business environment, and a tax system that rewards hard work.
- ◆ A long-term plan of broad based tax relief for individuals, business and families.

- ◆ Support Canadian researchers and innovators in developing new ideas and bringing them to the marketplace.
- ◆ Our Government is committed to helping Canadian families meet their needs

I believe that a main ingredient of future government economic policy will be lower tax rates across the board. This is one of the few effective ways of compensating for the high Canadian dollar – since nothing much else works. Although this was proposed by the Conservatives when they first came to office, it didn't get off the ground. With more power in Parliament because of a fractured opposition, the government can now move ahead. Finance Minister Flaherty recently commented on a possible reduction in tax on capital gains coming back in the next budget – so what else is there to know? Canadians can count on general tax reductions and a reduction in taxes on capital gains in particular.

### **Conclusion**

If you have unrealized gains and are thinking of selling assets, hold off if you can. With higher government revenues, possibly for the long term, lower tax rates are a certainty. The precise nature of tax changes is usually hard to predict but a capital gains reduction (in the near term) is in the bank.

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