Strategy UPDATE
Issue 57

Cory Bruner, CFA®, CFP®
Associate Investment Advisor

An Introduction to the Disability Tax Credit

The Disability Tax Credit (DTC) is one of the most common non-refundable tax credits we discuss in meetings and it is surprising how many clients are unaware that it exists. In Canada, it is possible to pay between zero and 53.53% in taxes and the DTC is one of many ways to get closer to zero.

First introduced in 1988, the Disability Tax Credit (DTC) is a non-refundable tax credit that reduces income tax payable unlike a tax deduction that reduces the amount on which tax will be calculated. The purpose of the DTC is to provide some tax equity since disability costs are an unavoidable additional expense that other taxpayers do not have to face.

There are two criteria to determine if you might qualify for the DTC. The first relates to duration which answers the question about whether the condition is prolonged. Prolonged, as it relates to the DTC, is defined in terms of whether the impairment lasted or is expected to last for a continuous period of at least 12 months.[1] The second relates to the effects of the impairment which are those that even with therapy and the use of devices and medication, cause the patient to be restricted all or substantially all of the time (at least 90% of the time).[2] If the condition is prolonged, and the effects of the condition result in restrictions, then one has to look at what activities of daily living (ADL) are affected. ADLs can be both physical and mental. Common physical ADLs include speaking, hearing, walking, feeding, and dressing. Some of the more common mental ADLs are memory, judgement, and problem solving. The medical conditions that could qualify include Osteoarthritis, knee/hip problems, back and neck issues, Crohn's/

What's inside

Polson Bourbonniere Derby
WEALTH MANAGEMENT

iA Private Wealth™

Colitis, Sleep Apnea, Hearing Aids, Memory loss and Alzheimer's and Dementia.

The most recent Federal budget on April 19, 2021 proposed expanding some of the mental functions of everyday life to include attention, regulation of behaviour and emotions, verbal, and non-verbal comprehension. The goal is to acknowledge the wider range of mental activities required for everyday life. The budget also proposed expanding rules surrounding time spent on life sustaining therapies that allow individuals to qualify for the DTC where they are undergoing significant therapies that have an impact on the activities of daily living.

The application process involves filling out the form T2201 and having your medical practitioner certify specific medical details related to the activities of daily living. The applicant then receives a certificate that can be used to qualify for the DTC and other plans such as the Registered Disability Savings Plan (RDSP).

The maximum disability amount in 2020 is $8,576 and it is possible to claim the amount for yourself, for your spouse or common-law partner, or for your dependent.[3] If one was eligible for the DTC in previous years but did not claim it when one filed the tax return, one can request adjustments for up to 10 years.

There is a lot of information on the Disability tax credit. We always recommend having a discussion with your PBD advisor and tax professional. There are also numerous resources online, including the Government of Canada website, that include videos and more detailed information.[4]

1 Government of Canada, "Disability Tax Credit", https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html, (accessed 19 April 2021).

2 Government of Canada, "Disability Tax Credit Certificate", https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t2201.html, (accessed 19 April 2021).

3 Government of Canada, "Disability Tax Credit", https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html, (accessed 19 April 2021).

4 Government of Canada, "Disability Tax Credit", https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html, (accessed 19 April 2021).

Bonds, what are they good for ...Definitely something!

Cory Bruner, CFA®, CFP®
Associate Investment Advisor

We often talk about bonds in meetings with clients but what exactly is a bond and what do they contribute to the portfolio? Bonds provide diversification from stocks as they behave differently and have different drivers of returns. They are also generally less volatile and therefore a much safer source of cash flow.

When we review a portfolio and look at the big donut (the colorful circular graph on statements), we often divide the portfolio between stocks, fixed income, and cash. Bonds generally belong in the category of fixed income because they are just that. Bonds are a promise, either from a government or corporation, to pay a fixed coupon (a rate of interest) for the term of the bond on a principal amount. So, a 10-year 5% coupon bond paid semi-annually on a $1000 amount would pay $25 twice per year for 10 years. That payment is fixed (hence the fixed income) for the life of the bond.

This seems very simple. Collect 5% rates of return from your bonds and ignore the volatility of the stock market. Not so fast! While stock prices are generally most affected by earnings and future cash flows, bonds prices are generally most affected by interest rates, credit quality and term. The relationship between bonds and interest rates is that as interest rates go up, bond prices go down and vice versa. Think of it as if investors are collecting a 5% coupon and new bonds are being issued at 6%, they will prefer the 6% bond because it offers more income and sell the 5% bond thereby lowering the prices. That price decline exceeds the interest paid on the coupon hence the negative return on bonds. This is the reason why bond portfolios are producing negative returns this year as the 10-year treasury is up from 0.92% to 1.64% since January. Credit quality is a factor in the coupon rate paid by an issuer with higher credit quality requiring a lower coupon rate by investors due to lower risk of default. Longer terms make bonds more volatile because it means a longer time to receive cash flows and principal back.

With all that said, what are bonds good for? One advantage is diversification. Bonds and stocks tend to have an inverse relationship. When bonds are doing well stocks are not and visa versa. Bonds are also affected by different factors than stocks. Bonds tend to be most affected by the factors described above (interest rates, quality and term) while stocks tend be affected by earnings, cash flows, and the economy. Therefore, as these different factors improve or deteriorate, so will the returns of bonds and stocks which also acts as a diversifier. So, if earnings are down due to recession, bonds may do well but when interest rates start increasing, the stocks may do well. You never know what will do well so it's best to diversify across asset classes. The second advantage is liquidity. Many institutional investors such as pension plans use bonds as a safe way to fund future cash flows. If the plan knows that it has $10,000,000 due to its annuitants in 5 years, having a bond come due in 5 years for that amount (principal plus interest) is the perfect way to fund that liability. The third advantage, and tied to liquidity, is that bonds are less volatile than stocks and therefore a more stable way to provide liquidity. As shown in the tables below, historically US bonds have a lower average annual return but the worst return at (8.1%) is far less volatile than the (43%) for stocks. The last thing you would want is to have to sell a stock portfolio when the markets are down 43% and cannibalize more units to do so. It is much safer to use the bonds to fund the cash flows. We use the same principle here at PBD. We can fund cash flow such as RRIF payments by using the fixed income portion of the portfolio.

Historical Risk/Return (1926–2020)[1]

Average annual return	6.1%
Best year (1982)	45.5%
Worst year (1969)	–8.1%
Years with a loss	19 of 95

Historical Risk/Return (1926-2020)[2]

Average annual return	10.3%
Best year (1933)	54.2%
Worst year (1931)	–43.1%
Years with a loss	25 of 95

The final advantage is that bonds provide a higher average rate of return per year than cash and GICs, so it makes sense to have them in the portfolio.

The goal with bonds is to diversify the portfolio, provide some downside protection from the stock markets, and to provide liquidity for cash flows. A well-diversified bond portfolio by term, issuer, and quality has a place in portfolio construction. To review your fixed income options, please speak with your PBD advisor.

1 Vanguard, "Vanguard Portfolio Allocaton Models", https://investor.vanguard.com/investing/how-to-invest/model-portfolio-allocation, (accessed April 28, 2021).

2Vanguard, "Vanguard Portfolio Allocaton Models", https://investor.vanguard.com/investing/how-to-invest/model-portfolio-allocation, (accessed April 28, 2021).

Wealth Professional Awards 2021

We are incredibly pleased and excited to be Finalists in the category of Multi-Service Advisory Team in this year's Wealth Professional Awards. And equally wonderful – our very own Ruth Ashton is also a Finalist in the category of Female Trailblazer of the Year.

We couldn't have done it without you!

Polson Bourbonniere Derby Wealth Management
iA Private Wealth and iA Private Wealth Insurance

7050 Woodbine Ave., Suite 100
Markham, Ontario L3R 4G8
Main: 416.498.6181 or 905.413.7700
Fax: 905.305.0885
Toll Free: 1.800.263.0120
Website: www.worryfreeretirement.com

Ruth Ashton, CFP®
Investment Advisor
Insurance Advisor
Direct: 905.413.7710
Email: rashton@pbfinancial.com

Paul Bourbonniere
CFP®, CLU, CH.F.C., CEA, CIM®, CHS
Investment Advisor
Insurance Advisor
Direct: 416.498.6181
Email: pbourbonniere@pbfinancial.com

Cory Bruner, CFP®, CFA®
Associate Investment Advisor
Direct: 905-413-7706
email: cbruner@pbfinancial.com

Michael Derby, CIM®, PFP®, CEA, RIS
Investment Advisor
Insurance Advisor
Direct: 905.413.7726
Email: mderby@pbfinancial.com

Derek Polson, CFP®,CEA
Investment Advisor
Insurance Advisor
Direct: 905.413.7709
Email: dpolson@pbfinancial.com

Office Hours
Monday to Friday,
8:30 a.m. – 5:00 p.m.