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Wealth Without Borders

Your Quarterly Cross Border Newsletter

The purpose of this newsletter is to share cross-border wealth management news and insights with our cross border clients and colleagues.

UNPRECEDENTED TIMES CALL FOR UNPRECEDENTED MEASURES

UNDERSTANDING COVID-19 RETIREMENT RELIEF MEASURES ON BOTH SIDES OF THE BORDER

The COVID-19 pandemic has affected individuals worldwide and governments have responded with drastic financial relief measures. Both the Canadian and U.S. governments have responded by providing a number of tax relief provisions. This edition of WWB highlights the relief measures that are available for retirement plans and the impact for our cross-border clients.

WHAT ARE THE CANADIAN RETIREMENT RELIEF MEASURES?

Registered Retirement Income Fund (RRIF) owners are required to withdraw a minimum amount each year, starting the year after the RRIF is established. The usual minimum withdrawal amount is based on the client's age and the market value of the RRIF at the start of the year. As part of Canada's COVID-19 Economic Response Plan, the amount of the required minimum withdrawal was reduced by 25% for 2020. The lowered minimum also applies to life income funds (LIFs) and other locked-in RRIFs. Unfortunately, RRIF holders who have already withdrawn more than the reduced minimum amount cannot recontribute the excess back into their RRIFs. The Canadian government did not announce any special provisions for retirement plan withdrawals for those who directly affected by COVID-19.

WHAT ARE THE U.S. RETIREMENT RELIEF MEASURES?

Similarly, in the U.S., holders of individual retirement accounts (IRAs) and 401(k)s are required to withdraw a minimum amount each year based on the age the client will turn in the current year and the market value of the retirement account at December 31 of the previous year. The Coronavirus Aid, Relief and Economic Stimulus (CARES) Act eliminated required minimum distributions for holders of individual retirement accounts (IRAs) and 401(k)s for 2020. Retirement account owners who have already taken distributions have until August 31, 2020 to recontribute funds back into their retirement account.

The U.S. CARES Act also allows retirement account holders of any age to take 'coronavirus-related distributions'. Eligible individuals are permitted to withdraw up to $100,000 from their retirement plan and have it characterized as a coronavirus-related distribution. Eligible individuals are specified as those who were diagnosed with COVID-19, those whose spouses or dependents were diagnosed, or those who experienced financial hardship from the pandemic. The penalty that would have applied on the withdrawal is waived for these distributions. The coronavirus-related distribution is added to taxable income on a prorated basis over three years so that the income tax owing on the withdrawal is spread out. As well, if the withdrawn amount is

Current Rates & Data

Govt of Canada

90 day	0.15%
1 year	0.20%
2 year	0.29%
5 year	0.40%
10 year	0.59%
30 year	1.11%

U.S. Treasury

90 day	0.09%
1 year	0.12%
2 year	0.14%
5 year	0.28%
10 year	0.68%
30 year	1.41%

Canada Prime Rate

2.45%

U.S. Prime Rate

3.25%

Exchange Rates

CAD/USD	0.759
USD/EUR	1.194
JPY/USD	105.4

contributed back into the retirement plan within three years, the tax liability that arose from the original withdrawal is refundable by amending prior year tax returns.

WHAT IS THE IMPACT FOR OUR CROSS-BORDER CLIENTS?

Canadian and U.S. government relief measures allow retirees in both countries to keep more money in their retirement plans this year. This reduction of minimum withdrawals is a significant benefit for retirement investments where the value was reduced from the market correction. This is because the minimum amounts for 2020 are calculated based on a potentially higher market value (January 1, 2020 for Canadian retirement accounts and December 31, 2019 for U.S. retirement accounts). Reducing the required withdrawal in Canada and eliminating the required withdrawal in the U.S. allows retirement investments to recover as the market rebounds. Slowing down the forced depletion of a retirement plan is financially beneficial for those who have other sources of income, and don't require the withdrawal amount for cash flow purposes. The income distribution for the 2020 tax year will be deferred and the investments will benefit from an additional year of tax-deferred growth.

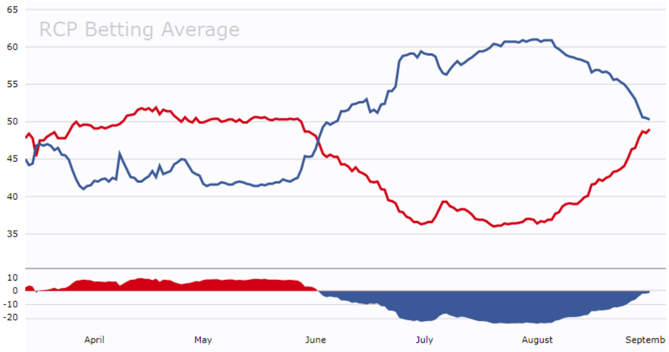
For our American clients impacted by Covid-19, the relief provisions in the CARES Act provide the flexibility to take withdrawals. The provision should only be used as a last resort for emergency funds as it is generally preferable to draw on a line of credit or use other available funds before drawing on retirement funds. This is because of the tax-deferred growth is lost on withdrawn retirement funds. The May 2020 edition of Taking Stock with Steele talked in depth about emergency funds. As always, we recommend clients speak with us about their individual situation, as these government measures are fluid and subject to change.

CROSS BORDER TIDBITS

NEXT STOP: CANADA

Communitech has launched a campaign to recruit anxious tech workers to the KW region. The billboards are posted on main highways in Silicon Valley, and will soon be up in other tech hubs like Boston and Austin, Texas. The U.S. administration recently suspended H1-B visas, leaving many workers in limbo over their future in the USA. We are already seeing an influx of new workers and look forward to helping more Canadians and Americans manage their cross border investments!

FALL WINDS BLOW IN ELECTION SEASON



And just like that, US election campaigns are in full swing! The recent US market run up is being attributed to soaring Republican odds in what is essentially a coin flip election now. Investors are positioning that lower taxes and a stronger US dollar would come with a Republican (red) win, while sectors like infrastructure and clean energy would benefit from a Democratic (blue) win.

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