

# ADVANCING *Issues*

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## All in the Family... A profile of a clients passion for Canada

### Canadian Journey: a love story

By David Bly

**B**arry Stewart's favourite place in Canada is... Canada.

The Calgary engineer travelled to the far corners of the country in his oilpatch career and, after retiring, decided to revisit many of the places he had been and explore others.

The result is his book, *Across the Land: A Canadian Journal of Discovery*, an uncritical, upbeat trip from sea to sea.

Stewart was born in Winnipeg, finished high school in Ontario and attended Queen's University. He has lived in five provinces.

A visit to Calgary convinced him he wanted to live here, and it's been home for the past 40 years.

While he is an unabashed Calgary booster, he won't be nailed down when asked to name his favourite place in Canada.

Instead, he has drawn up five top 10 lists, sorting them alphabetically or geographically.

He doesn't hesitate to state what he likes best about the country.

"I have observed that, in spite of all the differences, there is a tremendous

amount of goodwill across the land to make the country work," he writes.

In an interview, he said he would like to see the book deepen appreciation for Canada's richness and diversity, and help Canadians know their land better.

"I've seen too many people with opinions about other parts of the country and they haven't been there," he said.

"I hope (the book) stimulates people to travel within Canada. If they don't travel, I hope it stimulates a desire to know better what's in their own area."

The book is a compilation of a number of trips, but Stewart writes them all as one, starting at the easternmost point of Newfoundland, meandering across to the Prairies, up to the Arctic, then down the coast to Vancouver Island. He travelled with no agenda other than to see what he could see.

His is a personal view, but contagious. Not far into the book, the reader is tempted to pack a bag, get in the car and go find the Canada Stewart sees.

He mixes well-known and oft-visited places with unnoticed corners. He

gazes with mouth-open awe at the Confederation Bridge that links Prince Edward Island to the mainland, and at Niagara Falls. He revels in constant serendipity as he explores small towns and remote roads.

#### THE BEST PLACE IN CANADA IS... CANADA

Stewart revels in quirky facts:

- Nova Scotia drove on the left side of the road until the 1920s.
- Canadians think of themselves as living on the 49th parallel, but two-thirds of the country's population lives south of the 49th, thanks to the densely populated region of southern Ontario.
- Summerside, P.E.I., has a College of Pipery.
- The world's first oil well was drilled in Ontario.
- Manitoulin Island in Lake Huron is the world's largest lake on an island in a freshwater lake.
- Winnipeg had the first A&W drive-in in the country.

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# A View from Calgary...

By John Davis, Senior Vice President, Corporate Planning Associates

The federal finance minister's Halloween announcement to tax income trusts came as a surprise to investors across Canada.

In Calgary, the reaction has been divided. Energy Trust CEO's and investors are outraged by what they see to be a betrayal and breach of trust by Jim Flaherty and the federal Tory party. Not only was an election promise broken, but it was a promise made by "our" western based Conservative government. A government with Reform and Alliance roots formed to protect the west against eastern-centric government policy, and to avoid at all cost another catastrophe similar to the National Energy Program of the early 1980's. Discussions took place in secrecy with no industry consultation. The result has left the Energy Trust sector devastated by tax policy akin to using a sledgehammer to drive an 8-penny nail. Sitting in their Calgary offices it is difficult for these senior business leaders to understand what they have done wrong to justify the loss of 35% of their market capitalization.

For senior executives of large Oil and Gas Exploration and Production (E&P) companies the announcement brought a sigh of relief. For the past two years they have faced increasing pressure from shareholders and board members to actively explore trust conversion options. The carrot attached to conversion being an expected immediate 15% jump in the company's market value. For senior management their position was that all corporate stakeholders would be far better off through the long-term execution of their strategic plan. Their argument was that of stewardship – that the executive

team was capable of creating incremental long-term stakeholder value through their prudent re-investment of cash flow. Mr. Flaherty's announcement immediately brought an end to this debate, and in doing so has allowed Calgary's large E&P companies to refocus energy on their business.

Two other groups in this city are also unhappy. For a controlling shareholder of a public company the trust structure was ideal. Prior to converting into a trust the public market was a huge source of frustration. Although it provided access to capital to allow their company to grow, it came at a cost. Often, due directly to the extent of their ownership interest, their company's stock traded at a discount to their industry peers. Trading volume and analyst coverage also often suffered. In terms of liquidity, the controlling shareholder was handcuffed as the public markets would punish their stock any time they attempted to sell shares. Their only option was to arrange a sale of the entire business, something they did not necessarily desire to do. Add in the continual governance issues and onerous public market filing requirements; this all lead controlling shareholders to seriously explore buying the public float and re-privatizing their companies.

Then, investment bankers explained the trust model and creative tax lawyers devised a means to avoid a taxable disposition upon conversion through the use of "exchangeable" common shares. For units that the controlling shareholder did decide to hold directly, they started to receive cash flow – and lots of it (trust unit distributions of \$100,000 to

\$500,000 a month are not uncommon)!! Moreover, trading volumes soared as investors craved trust units. Almost overnight, an "orphaned" \$4 per share public company could become a thriving \$30 per unit trust. For majority shareholders of public companies, a trust conversion was the magic bullet that allowed them to realize full market value on their corporate investment, and cash flow greater than any pension plan they could ever have structured.

The second unhappy group are the Junior Exploration and Production companies. These "Juniors" are small, high-risk explorers of oil and gas. Traditionally, these high growth companies accessed the public markets for initial capital, acquired land, and grew both by the "drill bit" and through mergers with other Juniors. Their goal was over a seven to ten year period to find and produce enough oil and gas that analysts would start to cover their stock, and potential "acquirers" would take interest (hopefully at the peak of the next commodity cycle). These acquirers were often U.S. based energy firms looking for a piece of the Canadian energy story.

The proliferation of the trust model in the energy sector changed everything. The mid-sized Oil and Gas E&P sector completely disappeared as every Intermediate producer converted to the trust model. Many Energy Trusts began to aggressively exploit their cost of capital advantage (due to the favorable tax aspects of their structure) to become voracious acquirers of producing properties and other energy companies. Juniors became the staple diet of this new breed of high growth Energy Trust.

Business plans for Juniors shortened to as low as 18 months, and unlike the past many chose to stay out of the public markets (with all its disclosure and governance hurdles) and instead to raise private capital. The role of the Junior explorer was to find the pools, drill them, and then sell them to an Energy Trust who would optimize production. In a “deal” oriented city, the trust structure set the Calgary oil patch on fire.

So where do we go from here? Clearly the number of Calgary based Energy Trusts has reached its peak, and four years from now (when they become taxable) only a fraction will remain. Some Energy Trusts will use the next four years to aggressively

distribute to unit holders, effectively using this tax-free window to wind down operations. Other trusts that were proponents of the aggressive growth model will need to reinvent themselves and slash costs. Many will be unable to make this transition and will be broken up and the pieces sold. Energy Trusts that are more operating than financing entities may continue in their existing form. Investors will continue to provide demand for distributions, and will also value their prudent management of maturing oil and gas properties. That said, many Energy Trusts will choose to reconvert back into publicly traded common stock. In situations where there is a need to raise capital south of the border, this traditional

model may prove to be more easily understood by U.S. investors. The Intermediate E&P sector will most likely be reborn, possibly through “Hybrid” Energy Trusts (i.e. that pay out a lower percentage of cash flow) merging with “related” publicly traded Junior exploration companies.

In all, a likely outcome is that the Calgary energy patch will return to its traditional form. Still this will require dramatic change and will not be without pain. As the leader of CPA’s Family Office Team in Calgary it is my responsibility to provide support and assistance in determining creative means that will allow clients directly affected by this announcement to transition effectively.

## Taking Care

### Clients helping their parents with the bills can claim certain tax credits.

By Gena Katz

**L**ucie Wong, a 73-year-old widow has recently been diagnosed with Alzheimer’s disease. Until recently, she’s lived on her own with a bit of assistance and has been able to support herself financially on an annual income of \$18,000 (OAS, a CPP survivor pension and a \$500 monthly annuity payment). But that will soon change as she requires more continuous care and likely significant financial support from her two grown children, Albert and Joanne.

Fortunately, Lucie updated her will and her Power of Attorney right after her husband’s death two years ago. As a result, Joanne and Albert will be able to take care of their mom’s financial affairs and make decisions about her care. But Lucie does not have a private health plan or long-

term care insurance. The cost of long-term care could be very significant, so it’s important that Joanne and Albert be aware of any available financial assistance, including through the tax system.

One of the first things the children should do is to ask Lucie’s doctor to certify that her impairment is severe enough to make her eligible for the disability tax credit (DTC). The certification is made on prescribed form T2201, which will be reviewed by the CRA and hopefully approved. To avoid delays in assessing returns in the first year that a disability claim is being made, it’s a good idea to send the form in as early as possible and get pre-approval of the disability claim.

At Lucie’s current income level, and based on the personal credits

she may claim, she won’t be able to benefit from the entire disability credit (\$6,741 federal base for 2006). However, the unused portion can be transferred to her supporting children. Either or both can benefit from the transfer, as long as the total of all DTC claims does not exceed the annual maximum. Two other credits that may be available are the Infirm Dependent credit and the Caregiver credit. The Caregiver credit can only be claimed if the parent lives with the child. The credit amounts are identical and they are both income-tested, but the income thresholds at which each credit is eroded are \$9,500 and \$17,400 respectively. In Lucie’s case, with \$18,000 of net income, neither credit would be available to her children.

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## Taking Care

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It is likely that Lucie's most significant expense will be attendant or nursing home care. Joanne's initial investigation found these costs will range between \$18,000 and \$30,000 annually. For tax purposes, such costs generally fall under the medical expense category, entitling the payer to a tax credit computed using the lowest marginal rate. Fortunately, the ability to claim medical expenses paid on behalf of a relative (other than a spouse or child) has been significantly enhanced over the past few years.

An individual can claim medical expenses paid for a dependent relative to the extent that the amount exceeds the lesser of 3% of the dependant's income or \$1,884 (2006 threshold), up to \$10,000 annually. To maximize the tax benefit in relation to these costs, it would be sensible for Joanne and Albert to split the cost of care, say \$10,000 each, thus making up

to \$20,000 of attendant care nursing home costs eligible for the medical expense credit.

There is one snag: if the full-time attendant care or nursing home care medical expense claim is made, the DTC cannot be claimed (by anyone) in respect to that individual. Even so, it's still important to get the T2201 certification, because in order for full-time care costs to qualify as a medical expense the individual concerned must meet the criteria for the DTC. Also, there is the ability to claim both the DTC and up to \$10,000 of total attendant care costs under what's known as the "part-time attendant care rule." This would only be used if it produced a higher claim than full-time care costs.

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## All in the Family...

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Stewart admits to the normal western attitude toward Toronto, citing the usual "centre of the universe" mantra.

"Having said all that, I really like Toronto," he writes.

A 266-page book is only the beginning, Stewart says. He intends to keep travelling, to continue discovering and rediscovering the country he loves.

For him, it's a seamless journey.



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## A new face in the West!



We would like to take this opportunity to welcome and introduce Harris Abro to our clients across the country. Harris joined CPA's Vancouver office as Senior Vice President in September.

By now, I am sure everyone in Vancouver has had the opportunity to meet with Harris and will agree that he has an excitement and passion that is contagious.

Harris professionally integrates this passion as an experienced financial services advisor who has been providing financial planning services, investment advisory services and insurance solutions to a variety of professionals and executives in Vancouver. He came to Canada from South Africa 12 years ago, where he practiced law. Upon emigrating to Canada, Harris changed careers and moved into financial services, initially in insurance.

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