



Transferring wealth Effective strategies for the typical Canadian

KEEPING IT IN THE FAMILY

You've worked a lifetime to accumulate assets. In fact, the average Canadian family has amassed total personal wealth of approximately \$224,633¹. And whether your nest egg is bigger or smaller than that, there are simple strategies every Canadian can use to make sure their wealth passes smoothly and tax-effectively to children and grandchildren.

MINIMIZE CAPITAL GAINS TAXES ON YOUR COTTAGE

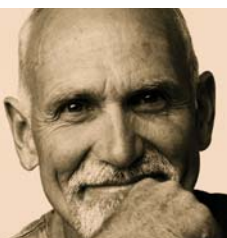
For many older Canadians, the family cottage becomes a liability. Maintenance expenses are a drain on their bank accounts, and the equity they have tied up in the cottage could be put to better use funding their retirement, dream vacations or hobbies. Transferring the cottage to the next generation during your lifetime may solve these problems and provide tax-planning opportunities at the same time.

Let's assume that you have a home in the city that you intend to designate as your "principal residence." * You can sell this home without paying tax on the capital gains it has earned through the years. Your cottage, on the other hand, won't be exempt from capital gains taxes when you sell it. However, if you expect the cottage to appreciate in value in the coming years, transferring ownership to your children now allows all future gains to be taxed in their hands rather than yours. It also means that probate fees won't be charged on the value of the property after your death because the cottage won't be part of your estate.

Of course, selling the cottage now does mean that taxes will be due on any appreciation in value to this point. There are smart ways to structure the sale, though, that can reduce the immediate tax liability. If you sell the cottage to your children in return for a promissory note (not a demand promissory note, deemed to be due immediately) or mortgage, with equal payments to be made over a minimum

¹ Source: Vanier Institute, January 2005

² A taxpayer can only designate one qualifying property as their principal residence for a particular tax year, and for years after 1981, only one property per family unit can be designated as a principal residence. Consult with your advisor to determine what the best strategy is for your specific situation.



of five years, only 20 per cent of the capital gains must be reported each year. Essentially, you can spread the taxes due over five years. If you choose to, you can forgive the outstanding loan in your will.

MAXIMIZE THE BENEFITS OF YOUR RRIF

It's very important to name a beneficiary for your Registered Retirement Income Fund (RRIF), and to choose that beneficiary wisely. Like a Registered Retirement Savings Plan (RRSP) and Registered Pension Plan (RPP), a RRIF can be paid directly to a named beneficiary, avoiding probate fees.

In addition, if the RRIF beneficiary is a "qualified beneficiary" – a spouse, common-law partner, financially dependent child or grandchild, or a child or grandchild dependent because of physical or mental infirmity – the RRIF proceeds can pass tax-free directly into the beneficiary's RRSP or RRIF or be used to purchase a qualifying annuity.

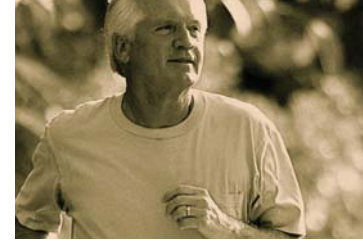
Proceeds from a RRIF left to someone other than a qualified beneficiary will be included and taxed as income on your final tax return – and the bill could be hefty. While you can prepare to cover these taxes in advance with a life insurance policy, it's often preferable to leave RRIF assets to a qualified beneficiary and other non-registered assets to your other beneficiaries.

SPREAD OUT AN INHERITANCE USING AN ANNUITY SETTLEMENT OPTION

Providing your beneficiaries with lump-sum payments of their inheritances may not be desirable in every situation. For example, if your children are still growing up, you may be worried that they won't be able to handle a large amount of money responsibly. Trusts allow you to define how much is paid when, but they can be costly and complicated. You have another, simpler choice.

Investments offered by an insurance company, such as Guaranteed Interest Contracts (GICs) and segregated fund contracts, may offer an annuity settlement option.

This allows you to specify that beneficiary payments be made as a lump sum or spread over a defined period of time – for example, for life with an optional guarantee period or cash refund option, or for a specific term such as five or ten years. You can also combine these options and arrange for beneficiaries to receive part of their inheritance as a lump sum and part as regular income over time.



AVOID PROBATE FEES WITH INSURANCE INVESTMENTS³

As long as you validly name a beneficiary on your insurance investments, they will be dealt with outside your will. That means this portion does not form part of your estate, and therefore won't be subject to probate fees or estate administration costs, and may be protected from any creditors you might have at the time of your death⁴.

Investments offered by an insurance company have other benefits. If you validly name a beneficiary your investments will avoid probate, which can take several months or even years if the will is challenged, and provide direct payouts to your beneficiaries. They generally also provide maturity and death benefit guarantees, which means that upon your death, and subject to certain conditions, your beneficiaries are entitled to receive a guaranteed sum whatever the market value of the investment is at that time.

Furthermore, investments offered through an insurance company are flexible. It can be much easier to change a beneficiary designation than it is to change your will. You also have the option of naming a trust as a beneficiary, which may qualify as a testamentary insurance trust – and these are taxed at the same graduated tax rates as individuals.

WATCH OUT FOR U.S. ESTATE TAXES

Many Canadians aren't aware that holding property situated within the U.S. ("U.S. situs property") may subject their estates to U.S. estate taxes when they die. U.S. situs property includes U.S. real estate, shares of a U.S. corporation (even if they were purchased through a Canadian broker on a Canadian stock exchange), and business interests located in the U.S.

While Canada only taxes your estate on any income and accrued capital gains up to the date of death, the U.S. taxes individuals on the total value of their estate – so U.S. estate taxes can be significant. The good news is that people with U.S. assets worth less than US\$60,000 are exempt altogether, and people with worldwide assets worth less than US\$1,200,000 are subject to U.S. estate taxes only on their U.S. real estate and business interests. Consult your financial advisor for information about your specific situation.

A LITTLE PLANNING GOES A LONG WAY

Every Canadian should have a comprehensive plan for transferring assets to the next generation, no matter how big or small their estate. Your financial advisor can help you implement strategies that work for you –

³ Probate is not applicable in Quebec.

⁴ In Saskatchewan, jointly held property and insurance policies with a named beneficiary are included in the application for probate but do not flow through the estate and are not subject to probate fees.

whether that means moving property or investments into your beneficiaries' hands now or structuring assets so the transfer is tax-efficient upon your death. Careful planning starting today will help you minimize taxes, reduce the possibility of a forced sale to cover unanticipated estate costs, and, perhaps most importantly, avoid family conflict and challenges to the wishes you express in your will.

STRATEGIES FOR SMALL BUSINESS OWNERS

If you own a business, talk to your financial advisor about the many wealth transfer strategies that can minimize taxes and maximize the value of your company when it passes to your children or grandchildren. Here are some ideas to get you started:

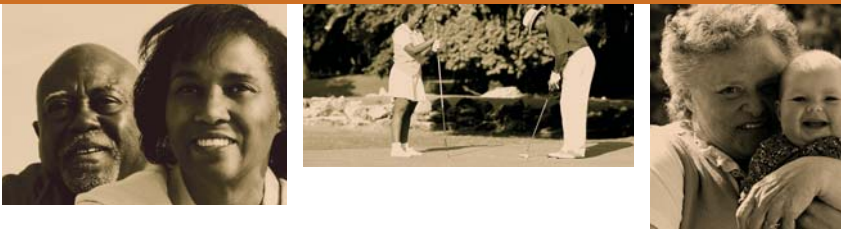
- Make full use of your lifetime \$500,000 capital gains exemption⁵
- Consider an estate freeze, which allows you to retain control over the business while freezing the value of your interest in the company so you can pass future growth on to the next generation
- Think about purchasing life insurance to, for example, fund an anticipated tax liability in your estate or keep the company afloat while your beneficiaries search for a buyer or reorganize the management team

PLAN AHEAD FOR A SMOOTH TRANSFER OF WEALTH

- Think about selling your cottage to children or grandchildren now so future capital gains are taxed in their hands
- Leave your RRIF to a "qualified beneficiary" and non-registered assets to your other beneficiaries
- Use features such as the annuity settlement option for insurance company investments such as GICs and segregated funds to spread out an inheritance rather than having it paid as a lump sum
- Consider the benefits of insurance company investments, which aren't subject to probate fees or estate administration costs and can pass quickly to your beneficiaries
- Find out if U.S. estate taxes will have an impact on your estate
- Talk to your financial advisor about strategies to transfer a business smoothly to the next generation



⁵ Available on the sale of certain qualified small business corporation shares.



DEATH, TAXES AND LIFE INSURANCE – A SOLUTION FOR LIFE'S CERTAINTIES.

We all know the expression “the only things certain in life are death and taxes.” What’s most ironic about this old cliché is that taxes don’t stop after you die. There is good news though. A good estate plan that incorporates life insurance can take these taxes into account and can play an integral part in your overall personal plan.

Without a proper estate plan, what you think you’re leaving your loved ones may in fact not be the case. Your estate may be eroded by unexpected debts and taxes leaving your heirs considerably less than you had hoped.

That’s where life insurance can help. While most people realize that life insurance can provide a tax-free payment to named beneficiaries after the death of the insured, they don’t always realize that it can also be used for much more. For example, it can pay off the debts, tax liabilities and other estate costs such as funeral expenses. Life insurance can even be used to create, increase or replenish an estate, or to equalize the estate among your heirs.

For more information on estate planning and life insurance, please contact your advisor.

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