

YOUR MONEY

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Finesse required for estate planning

Roman Emperor Marcus Aurelius said: “Every man’s life lies within the present; for the past is spent and done with, and the future is uncertain”. Those are words of wisdom for any age but are particularly salient when considered in the context of your estate.

While it’s true that your personal future may be uncertain, there could also be uncertainty in the way your estate rolls out. It’s never pleasant to consider life’s final chapter, but you must if you want to ensure your estate’s financial health. Careful tax and estate planning is imperative to ensure that your wishes are met and loved ones are saved from serious headaches.

For many Canadians, RRSPs and RRIFs comprise the largest part of their estates with home equity a close runner-up. Unfortunately, those registered accounts are also subject to the largest tax liabilities.

When you die, your registered accounts are deemed realizations and are treated as income. That means your hard earned RRSPs and RRIFs can shrink by nearly 50% after Revenue Canada takes its cut. This will almost certainly cause a lot of problems for your heirs as they deal with the daunting task of depleting assets to meet tax demands. And, as 2008 indicates, some years may prove particularly arduous if assets need to be sold at a loss.

Let’s consider a RRSP valued at \$200,000. For simplicity’s sake, let’s also assume you have not fully depleted your RRSP and you lose 45% to income tax (tax rates vary by province). Without any tax or estate planning, approximately \$90,000 will be taken by Revenue Canada, leaving only \$110,000 of the original \$200,000 to your heirs.

To reduce this hefty tax bill, you can start by designating a named beneficiary. If you name your spouse as the beneficiary, the registered plan can be rolled-over tax-free and probate will be avoided. However, the tax deferral only lasts as long as the surviving spouse, after which time the combined value of the registered accounts are taxed as income.

To maximize tax efficiency, insurance solutions can be added to the equation. Insurance that is equal to your projected tax liability can be purchased. This non-taxable insurance then creates the necessary capital on death to replace what is lost to taxes.

Let’s examine the same \$200,000 RRSP in our previous example. The estate would still be faced with a \$90,000 tax bill. However if a \$90,000 insurance policy were purchased, the death benefit from the policy would provide the liquidity needed to give your heirs the full \$200,000.

Although there are insurance premiums that must be paid for the balance of your lifetime, the lack of taxation makes the cost of insurance pale in comparison to the tax savings. Policy costs vary with age but for a qualified 71-year-old female, the annual fee is about 3.5% of the policy. For the equivalent male, it’s about 4.5 % and joint policies are roughly 2%. These figures can increase dramatically with age.

Applying some advanced estate planning strategies can increase the long-term yield of your portfolio and ultimately help you achieve lower taxes, preservation of your capital, and a larger estate for your heirs. Just as importantly, you can rest easier knowing your estate



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will be transferred to your heirs in accordance with your wishes.

Consult with an Investment Advisor along with a qualified tax, estate planning, and insurance specialist to develop a strategy that fits your situation. There are variables which should be carefully assessed.

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