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LET YOUR LEGACY THRIVE.

Protecting Your Estate

Throughout your lifetime, your success has allowed you to accumulate assets beyond those that you will need to provide for an enjoyable retirement. The ownership of some of these assets will result in a tax liability upon your death (or the death of your spouse). These assets can be divided into three groups:

First, assets of a capital nature. The current Canadian tax law provides for the deemed disposition of your capital assets on your death at fair market value, and any increase in value over the cost (the tax term is Adjusted Cost Base) is taxed as a capital gain. The most common assets in this category are:

- Shares in private or public companies
- Second home or vacation properties

Second, assets that generally produce income on your death. The most common assets in this category are:

- Registered assets, RRSPs or RRIFs
- Assets that are taxed as income such as interest bearing assets, GICs or money market funds

Third, are assets that are either fully tax paid or do not attract tax on death. The most common of these are:

- Non-taxable assets such as cash and TFSAs
- Principal residence
- The tax free proceeds from a life insurance policy

Estate Protection Alternatives

Many people want to keep their estate intact to pass on to their heirs. But what is the best method to fund this tax liability upon your death so that your assets can be passed to your heirs unencumbered?

Typically, there are four options to provide the liquidity to pay taxes that come due upon death:

1. Liquidate assets
2. Borrow funds, which usually means using assets as security
3. Create a cash reserve by systematically saving during your lifetime
4. Transfer the risk by purchasing life insurance in advance

Some of the advantages and disadvantages to each of these methods are:

1. Liquidate assets - Business cycles and the state of the markets are critical in the value of an asset. You have no way of knowing what this will be at your death. Further, the sale of assets by an estate often signals to a purchaser that there is a degree of urgency, which does not help the seller realize full value.

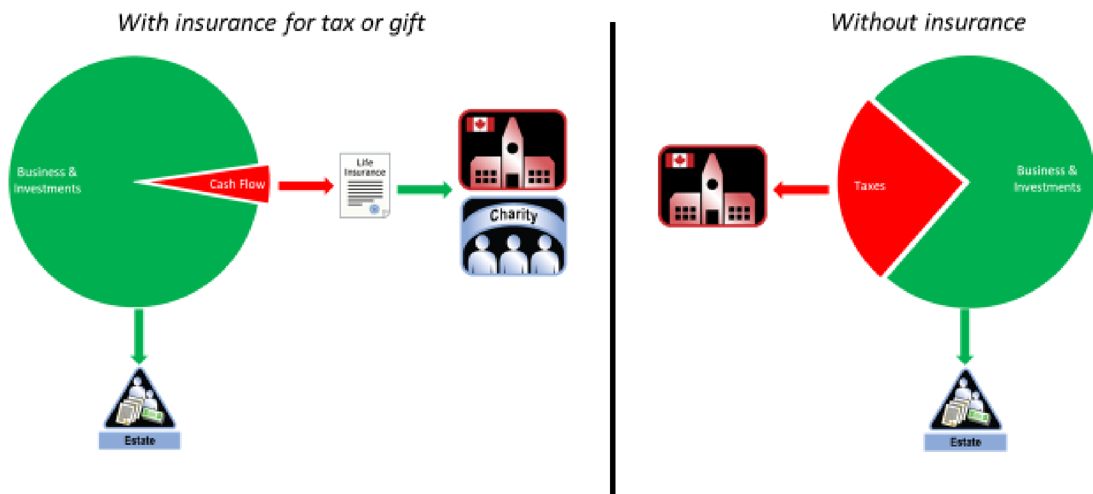
2. Borrow Funds - In estate situations, the main objective is usually to distribute the assets to the beneficiaries. Borrowing against the assets, which will likely require pledging them as security, makes this more difficult. Further, it is not possible to predict the market conditions at the time of death. Financial institutions go through cycles, as do loan rates.

3. Create a cash reserve - In the context of an estate situation a cash reserve is not a practical option as you do not know when death will occur and whether there will be ample cash flow at that time.

4. Transfer the risk by purchasing life insurance - Life insurance, purchased in advance, removes many of the risks associated with funding the tax liability upon death. The death benefit provides liquidity at exactly the time it is needed, and in Canada it is paid tax-free to the named beneficiary. The most practical, and cost effective, method to transfer the risk of funding a tax liability is to purchase life insurance.

Estate Tax Options

Cash flow to life insurance can be set up at a fraction of the cost of the tax to either **fund the tax** or eliminate the tax with tax credits generated by funding a **gift**. It's your choice!



Summary

The best method of covering a future tax liability, funding a gift to eliminate the tax, upon death is to purchase life insurance, which effectively transfers the risk away from the estate. Not only does it give you peace of mind, it also outperforms other alternative methods in terms of financial cost. Consult with us about protecting your estate.

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