

## Preserve Your Estate For Your Heirs

If you wish to preserve your estate for the full benefit of your heirs, then proper financial planning is an essential consideration. An unfortunate reality that you will need to consider is that, upon your death, the government may become a significant beneficiary of your estate through taxes. In the absence of a properly implemented estate plan, a significant tax bill may have a pronounced effect on the eventual settlement of your estate.

When an individual dies, most assets can be transferred to a surviving spouse, if any, without a tax liability. However, in the absence of a surviving spouse, a 'deemed disposition' occurs for income tax purposes. This situation usually gives rise to taxable capital gains – often at the highest marginal tax bracket – and generates a tax liability for the estate.

An excellent example of this is what happens with a family cottage. Although you may wish to pass on the family cottage to your children, the reality is that the tax liability may force your estate and your beneficiaries into considering the sale of the cottage in order to pay the tax bill. The same can be said for other assets that you have which become taxable upon your death.

The following are general examples of some of the tax considerations which may apply to your estate upon death, when there is no surviving spouse.

### Taxable

- Registered Savings (RRSP/RRIF)
- Capital gains on non-registered investments
- Capital gains on cottages
- Capital gains on investment properties
- Capital gains on non-incorporated businesses

### Tax Exempt

- Proceeds from insurance policies to a named beneficiary
- Capital gains on a principal residence

### Illustration

Over the years, Mr. and Mrs. Smith have accumulated a home and a summer cottage. As their principal residence, any capital gains on their home would be tax exempt. However, should they both die, their cottage would generate a sizeable capital gains tax liability before their only child, Jane, receives any inheritance:

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## Summer Cottage

Current Value \$ 300,000  
Adjusted Cost Base \$ 50,000  
Unrealized Capital Gains \$ 250,000

## Tax liability

Amount subject to taxes<sup>1</sup> \$ 250,000  
Taxable Amount (\$ 250,000 X 50%) \$ 125,000  
Capital Gains Taxes<sup>2</sup> (\$125,000 X 43.70%) \$ 54,625

<sup>1</sup> Under current Canadian tax provisions, capital gains on your principal residence are not taxable.

<sup>2</sup> Based on highest combined marginal tax rate Federal and Provincial tax rate for B.C. for 2007.

In this illustration, Smith's heirs will have to face this additional tax liability. They may even need to liquidate assets such as the cherished summer cottage or consider taking a bank loan and assume additional related interests.

## The Insurance Alternative

Let life insurance pay any costs related to death. Some of the benefits offered by Life Insurance:

- Provides money to pay the final expenses, debts, and tax liability
- Proceeds at death are tax-free when directed to named beneficiaries
- Insurance premium can be guaranteed without increase
- Premium payments can be flexible depending on the product you choose
- Protection can be permanent or temporary

## Summary

Life insurance is a simple coverage, that provides estate liquidity to cover the potential capital gains and related tax consequences, without the obligation for your heirs to liquidate cherished assets or to contract a substantial debt in order to pay estate expenses. If you are concerned about preserving the valuable assets passing to your heirs or if you want to access to the account value accumulating in the tax-sheltered account, give me a call today.

At DundeeWealth, we believe that having a financial plan forms the foundation necessary to grow, protect and transfer wealth from one generation to the next. We are committed to provide information on a variety of financial planning topics so our clients are able to make informed decisions.

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**Insightful**  
WEALTH GROUP

Insightful Wealth Group, DWM Securities Inc.,  
309 - 5455 152nd Street, Surrey, B.C. V3S 5A5  
T. 604-575-6911 clalberte@dundeewealth.com  
[www.insightfulwealthsolutions.com](http://www.insightfulwealthsolutions.com)

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