Comprehensive

Estate Solutions

You May Have a Tax Time Bomb Ticking and Not Even Know It

Protect your estate from taxes and fees

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Are you aware of the fact that taxes and probate fees* could reduce the value of your estate by up to half? While Canada does not impose death or inheritance taxes, generally your capital assets are considered to have been sold upon your death unless you leave these assets to a surviving spouse on a "rollover basis".

The income tax implications of this deemed disposition can be severe, and depending on your beneficiary designations and the province in which you reside, probate fees may be assessed on your estate to further erode your legacy.

Life insurance, often viewed solely to provide for dependants in the event of an untimely death, can provide an effective way of preserving your wealth for the benefit of your heirs.

Just what is taxable upon death?

Virtually any asset upon which taxes have been deferred will be subject to tax upon your death. This includes the full value of your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), as well as half of the gain on any non-registered assets, including recreational property.

The tax implications on these deemed dispositions can be significant. For example, if the cottage you purchased 30 years ago for $50,000 has appreciated in value to $250,000, upon your death, your estate could face a tax bill of approximately $45,000 on the cottage alone. An RRSP or RRIF containing $300,000 of assets would also be taken entirely into income. The result? It too could be cut almost in half once it's taxed.

In jurisdictions with relatively high probate fees, such as Ontario, Nova Scotia and British Columbia, these fees can further reduce your estate by thousands of dollars.

Delaying the inevitable

Canadians can bequeath capital property directly to their spouse or common-law partner – with no immediate tax consequences. The proceeds of registered plans can also be 'rolled over' to a surviving spouse or common-law partner and remain sheltered from tax. As a result, many tax liabilities can be deferred until the death of the surviving spouse or common-law partner.

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Example of a typical situation...

Asset type	Current market value	Original cost	Capital gain over 20 years	Tax payable
Non-registered mutual funds	$ 300,000	$ 120,000	$ 180,000	$ 40,500*
Vacation property	$ 360,000	$ 100,000	$ 260,000	$ 58,500*
RRSPs/RRIFs	$ 400,000	$ N/A	$ N/A	$ 180,000**
Totals	**$ 1,060,000**			**$ 279,000**

**Assumes 50% of Capital Gain is taxable at a personal rate of 45%*
***Assumes marginal tax rate of 45%*

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Unless the surviving spouse or common-law partner enters into a new relationship, the tax deferral ordinarily comes to an end upon his or her death. In these circumstances, estate assets may have to be sold in order to pay long-deferred taxes.

While selling assets to pay taxes is an option, it may not always be an ideal solution. Unfavourable market conditions could force the sale of assets at depressed prices, limiting the proceeds available to your estate. Transaction costs incurred upon these sales could further reduce these proceeds.

Finally, some assets cannot easily be sold. For example, it is not feasible to sell off only a portion of your cottage to cover taxes. This could put someone in the unenviable position of having to raise large amounts of cash if they hope to retain the property they inherit.

Another option

Rather than selling assets or borrowing cash to pay fees and taxes, consider purchasing a joint second-to-die life insurance policy to preserve your estate.

These policies insure the lives of both spouses, with proceeds payable upon the death of the surviving spouse. The proceeds can then be applied to cover your estate's tax liabilities and other debts, thereby leaving your legacy intact for distribution to your heirs.

For a more thorough understanding of what lies ahead for your estate, talk with us today.

**Probate fees are often not applicable in Quebec. And when they are, the fee isn't based on the value of the Estate.*

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