ADVICE YOUR WAY

Estate Planning:
First Steps

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FINANCIAL SOLUTIONS FOR LIFE

Let's Start with the Basics

If the words "estate planning" instantly bring your wealthy uncle to mind, you're not alone. Associating estate planning with wealth is a common misconception, and ironically, one that may be limiting your ability to become more financially established. Our goal is to help you understand estate planning in terms that apply to your situation. When it comes to estate planning, there are no assets too small to be neglected. If you have anything you are looking to pass on, big or small, it is wise to set up an estate plan that will:

1. ensure a smooth transfer of your assets to your heirs and beneficiaries
2. reduce any unnecessary burden on your heirs and beneficiaries
3. provide your heirs with a clear understanding of your last wishes, so they are properly carried out

Developing an estate plan is about creating a roadmap on how to retain and care for not just your assets, but for those you'd like to see benefit from them one day. Being informed is the first step, so let's start with the basics.

What is estate planning?

Estate planning is all about making decisions that will allow you to safeguard your assets and put into place instructions for their transfer once you are gone. This includes cash, clothes, jewelry, cars, furniture, real estate investments, your business if you have one, and, of course, savings. In short, many Canadians have an estate and should make an estate plan.

Why should I care about estate planning?

- To preserve the value of your assets as you age, and for your heirs.
- To ensure your wishes for your assets will be understood and respected.
- To minimize and defer taxes and other costs.
- To allow for a smooth and timely transfer of your assets to your beneficiaries.

Estate planning can seem like a daunting task, but it's nothing compared to the family, financial, legal, and emotional turmoil, which can result from lack of planning. The two most significant rewards of having a plan in place are:

1. the ability to build the value of your estate
2. knowing you're leaving loved ones in the best situation possible

What you need to know

Starting as early as possible on your estate plan ensures you are not under stress because you are not dealing with it at the last moment. It allows you to have time to think about what you want with a clear mind and no pending deadlines creating unnecessary pressure. It also gives you the best scenario for ensuring your wishes are honoured and that your beneficiaries receive the legacy you intend for them. Here are the steps to getting started:

1. Read this 3-part series on estate planning and become better informed about what is involved.
2. Start the process as early as possible and avoid doing it under stressful circumstances or environments.
3. At the start of the planning process, talk with your family and heirs. Tell them your intentions and wishes to ensure they understand what you're working to create. They may not know or understand your intentions and may even have information you may want to consider before you make your final plans.
4. Work with an experienced financial advisor who is qualified to assist with estate planning.
5. Have an up-to-date, properly drafted will and power of attorney in place.
6. Ask your advisor to introduce you to specialized accountants and lawyers as needed.
7. Involve your executors in your estate planning process.
8. Introduce your financial advisor to your heirs and executors so they can work together more easily when the time comes. It will also ensure it is not an emotional or stressful time the first time they meet.
9. Communicate your final estate plan to your family, heirs and executors so they understand your decisions and what has been put into place.
10. Update your plan regularly as your situation changes. Be sure to keep your heirs aware of any changes.

Strategies for reducing financial impacts

Now that you understand what estate planning is and how it applies to you, it's time to start on your plan. We recommend you start by reviewing protection strategies that can help reduce financial impacts to your estate plan. Here are six to consider:

1 Charitable bequests
2 Transferring of assets
3 Limit probate fees
4 Freeze your estate
5 Managing your U.S. ties
6 Prepay funeral arrangements

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1

Charitable bequests

Leaving a donation to your favourite charity or charities not only helps others but can also offer tax benefits for your estate. Here are a few ways you can use charitable bequests to manage fiscal impacts:

- **Cash bequests**
  If you include cash bequests in your will, they may be eligible for a tax credit and could reduce the overall estate taxes to be paid.
- **Stocks, bonds, and mutual funds**
  Stocks, bonds, and mutual funds can be donated and may assist in reducing capital gains taxes against your estate.
- **RRSPs and RRIFs**
  RRSPs and RRIFs could be donated by making a charity the beneficiary, but be sure to confirm it will result in a tax receipt for your overall estate.
- **Life insurance**
  Life insurance policies may be donated depending on the terms of the policy, which is an excellent option for any policies that no longer meet your needs.[1]
- **A charitable remainder trust**
  A charitable remainder trust lets you place assets, such as real estate, into a trust, the remainder of which passes to a charity on your passing.[2]

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2 Transferring of assets

Your estate will be taxed based on your income during your final year of life, plus capital gains, previously claimed property depreciation, and the value of any Registered Retirement Savings Plans (RRSPs) or Registered Retirement Income Funds (RRIFs). There are a few ways to possibly minimize taxes such as transferring or rolling over some of your assets to family members. Here are a few items to consider:

- **Transfer to your spouse**
  Did you know funds in a RRSP, RRIF or a registered pension plan could be transferred to a spouse after passing? The deceased individual's legal representative can make contributions to the surviving spouse's or common-law partner's RRSP in the year of death or during the first 60 days after the end of that year. Contributions made to a spouse's or common-law partner's RRSP can be claimed on the deceased individual's income tax and benefit return up to that individual's RRSP deduction limit for the year of death.[3]

- **Transfer to a dependent child or grandchild**
  If you have a child or grandchild who is financially dependent on you due to a physical or mental disability, you may be able to transfer your RRSP or RRIF to their RRSP or annuity.

- **Transfer farm property**
  If you own farm property in Canada, the tax might be deferred if you leave the property to a child, grandchild, or even a great-grandchild in your will.

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3 Limit probate fees

In some provinces, there are substantial probate fees that apply when assets are transferred from your estate to the receiving party named in your will. There are several ways to possibly reduce these fees, including making sure you name a direct beneficiary for your RRSP, RRIF, and insurance policies or by owning some assets jointly with your survivors.

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4 Freeze your estate

An estate freeze is a sophisticated strategy that could be part of your business succession plan. This strategy "freezes" the amount of corporate capital gain that's taxable in a business owner's estate. After a properly structured freeze, any further growth in the company's value will accrue not to the principal shareholder, but to his or her successors or (more commonly) to a discretionary trust set up as part of the freeze.[4]

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5 Managing your U.S. ties

If you own property in the United States, such as a condo or a boat, or if you hold American stocks or bonds, your estate may be subject to a U.S. estate tax. Tax rules vary, so it's best to get professional advice on your specific situation and make the changes now to mitigate future impacts

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Working with a funeral home, you can not only plan your funeral, but you can deposit as much as $35,000 with them to cover the costs. As long as these funds are eventually used for your funeral, they won't be taxed. Funeral-specific life insurance is another cost-effective option to consider. Insurance premiums are spread out over the years, allowing for smaller monthly payments.[5]

Why expertise needs to play a part

Estate planning has potential issues at many levels—personal, financial, and professional. Be sure you have an experienced, qualified financial advisor helping you out. Studies show that investors who work with an advisor save at 2X the rate and have 4.2X the median assets of non-advised households. They also are more likely to choose tax-efficient savings vehicles, as well as be more confident about retirement.[6] These are statistics you really shouldn't ignore.

Preparing an estate plan can be an enriching experience that provides peace of mind and clarity into the future for all involved. Speak to us today about how we can help you develop a comprehensive estate plan.

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4. David A. Altro and Jonah Z. Spiegelman, Tax benefits of an estate freeze, Advisor's Edge, February, 2014
5. Pre arranging your funeral, everythingzoomer.com. November 2005
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Additional Resources:

Wealth Transfer 101: How to talk to your heirs about their inheritance, IPC Private Wealth, 2017

The Art & Science of Estate Planning: provided by Investment Planning Counsel Inc.

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