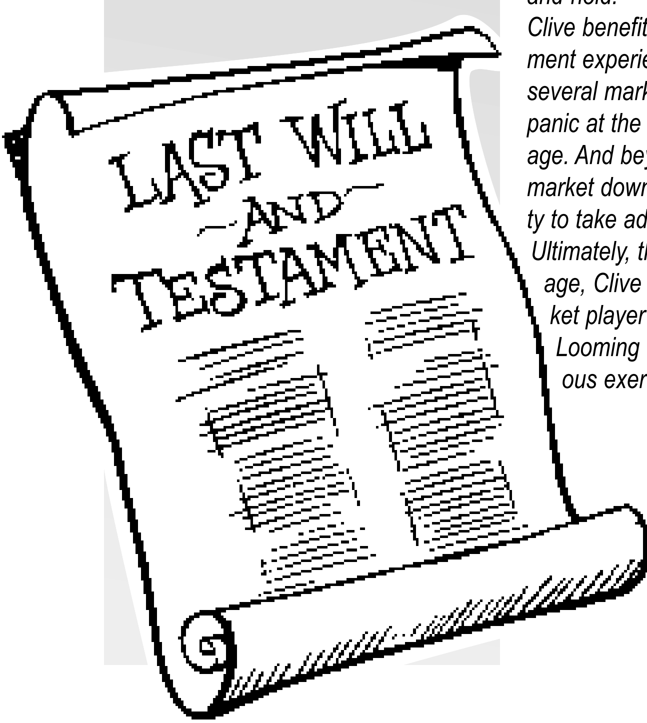
Estate Planning

Retirement and the end of accumulation mode; capital preservation; tax planning and capital gains; business succession; selling real estate; wills and charitable gifting



Our examination of investment behaviour across generations is especially appropriate when it comes to the subject of monitoring an investment portfolio. Kate, the youngest of our three characters, is well placed to choose a low-maintenance strategy and simply hold on to her investments over time, ignoring the short-term fluctuations of typical market cycles. Jack can't afford to lose significant value as he begins his investment program and so is not as likely a candidate for long term buy-and-hold.

Clive benefits from his ample investment experience, having been through several market cycles, and so does not panic at the first sign of market shrinkage. And beyond that, he knows that market downturns present an opportunity to take advantage of low prices. Ultimately, though, given his advanced age, Clive is no longer the active market player that Kate and Jack are. Looming ahead of him now is a serious exercise in estate planning ...

Clive and Ida are now set to make some concrete decisions about their estate. For them, it's a complicated process, given their consideration of moving to Arizona, the possible sale of their business, their desire to leave a substantial amount for their children and grandchildren and their need to arrange for adequate health care for Ida.

Will they keep their long-time Canadian home as their primary residence? How long will they live in Arizona?

Clive is a veteran of financial planning, but as he sifts through his options it becomes clear that estate planning is a whole new ball game. Consider the death of a spouse, for example. Upon death a deemed disposition is placed on all of the deceased's property for tax purposes. This can be postponed though a spousal rollover, if there is a surviving spouse, but the full tax bill will be due upon the survivor's death. The impact of capital-gains taxation on the estate can be overwhelming.

For the last surviving spouse the deemed-disposition rules require that all registered plans be redeemed, and the tax paid on them in the year of their eventual death. Even a relatively small RRSP or RRIF could result in the estate being moved into the highest marginal tax brackets.

Clive will have to sit down with his financial planner or tax consulant and look at strategies that will allow him to minimize his current taxes while maximizing the tax-free transfer of capital to his beneficiaries upon death.

Clive and Ida are also contemplating buying real estate in the U.S. They will no doubt become aware that there is no tax relief in the Canadian Income Tax Act for estate taxes paid in the U.S. This can result in double taxation on the same asset base, which could cause a huge depreciation of their estate. Their goal of leaving as much as possible to their offspring will have been significantly thwarted.

What about the sale of Clive's craft business? That represents more complicated estate-planning issues but also offers new options as well. Among the issues that need to be addressed are taxation of capital gains and business succession plans.

Ida has a pet concern of her own. She has decided she would like to make a gift to the Lung Association upon her death, a mechanism referred to as planned gifting. A charitable life insurance policy may be a low-cost way to endow the organization. She will have the benefit of a tax credit since her gift is to a charitable organization in Canada, and all she has to do is name the association as a beneficiary under a policy on her life. Ultimately, the Lung Association will receive a death benefit from the policy, and there are none of the administrative expenses or potential estate disputes associated with bequests made in a will.

It is indeed true, Clive muses as he, Ida and their financial planner examine these issues, that the sense of loss will be tough enough to deal with when a spouse dies, but living with unforeseen financial losses at the same time would make the situation even worse. Implementing a comprehensive, well-designed estate plan can represent true piece of mind for the mature couple as they enjoy their remaining years in the company of old friends and grandchildren.