EQUILIBRIUM FINANCIAL

PERSONAL STABILITY | BUSINESS FOUNDATION

Tax and Estate Planning

Equilibrium Financial builds on the foundation of financial planning strategies to ensure optimal returns on after tax dollars.

Equilibrium Financial advocates a forward-looking approach. We encourage you to take advantage of our tax planning strategies and consult with us to leverage your future personal and business tax obligations.

Your estate may encounter certain obligations for income tax and probate fees (Ontario has the highest probate fees in Canada, see notes below about probate fees) on your death, which may reduce the proceeds intended for the beneficiaries of your estate. If any part of your estate must go through probate to validate the will before transferring ownership of assets - it may be subject to probate fees.

Let Equilibrium Financial help you with estate planning by:

- Assessing your estate goals from a tax perspective and advise accordingly
- Reduce the tax liability during your lifetime and at death
- Advise on tax implications of various strategies and tactics

Overall goal is to KEEP IT IN THE FAMILY

To minimize income taxes and probate fees payable, there are ways to distribute assets to your heirs out of your estate. The key is to reduce the value of your estate.

Here are some other options that may or may not apply to your circumstances:

ESTABLISH JOINT OWNERSHIP WITH RIGHT OF SURVIVORSHIP

In this case, property passes to the survivor by law rather than through the will. Since the jointly held asset does not form part of the first joint owner's estate, the need for probate on jointly held property and the payment of probate fees is eliminated.

LEVERAGE INSURANCE

Some insurance products provide a straightforward alternative for minimizing probate fees.

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MINIMIZE TAXES PAYABLE ON THE ESTATE

Income taxes are for many estates the single greatest liability on the balance sheet. In fact, where assets are not transferred to a surviving spouse, many people and their beneficiaries are surprised to learn that the received value of an estate is substantially less than they thought because of taxes payable on it before distribution.

ESTABLISH A LIVING FAMILY TRUST

By transferring assets to a living trust while alive, the assets are removed from the estate and therefore reduce the value of the estate subject to probate fees.

The planning actions referred to here may have adverse tax consequences and may not be in keeping with your financial goals.

What is Probate?

Probate fees are the fees charged by provincial governments to probate your Will when settling your estate. Probating your Will is the process of having your Will authenticated and of confirming the appointment of your executor.

The Cost of Probate

Probate fees are highest in Ontario at $5 per thousand on the first $50,000 of estate value and $15 per thousand on the excess. In other provinces they are typically $3 to $6 per thousand. As a result, Ontario's probate fees for a modest estate of $500,000 now amount to $7,000. There is also no "spousal credit," which means assets that were subject to probate fees on the death of the first spouse, will be subject to probate fees a second time when the surviving spouse dies.

Fees payable on entire estate

When your Will is probated, fees are applied to the total value of the assets in your estate. There are no deductions for debts other than those against real estate. For example, if you have a mortgage on your home and a bank loan for your business, the value of your home will be reduced by the amount of the mortgage, but the bank loan will not reduce the value of your business.

The only assets exempt from probate are: insurance policies payable to a named beneficiary or assigned for value; assets held in a joint account and passing by survivorship; and real estate outside of Ontario. The exemption provided for insurance policies with a named beneficiary is, in practice, extended to RRSP's, RRIF's and pension plans.

How To Reduce Probate Fees Wisely

There are a number of ways you can reduce probate fees without jeopardizing your assets. The two most popular ways of reducing probate fees are:

- 1. Transferring property prior to death
- 2. Transferring assets outside of your estate

Transferring Property Prior To Death

It may make sense to transfer some of your assets to your heirs while you are alive. Such gifts allow you to enjoy the delight and appreciation of the recipients, along with the satisfaction of knowing you've avoided future probate fees.

In addition to reducing future probate fees, charitable contributions can generate substantial income tax credits now, which could be lost if donations are made through your Will.

Transferring Assets Outside Of Your Estate

Use a life insurance company to transfer money and investment assets outside of your estate. Whether it is life insurance, registered and prescribed annuities, RRSP's RRIF's, GICs or segregated (mutual) funds, you can keep these assets out of your estate by simply naming beneficiaries in the contracts.

In addition to your RRSP or RRIF, make sure you have named a person - preferably your spouse for tax reasons - as beneficiary of your pension plan and group insurance. Many people name their "estate" as beneficiary when they get a job and never give the matter another thought. If this is your situation, simply ask your employer for a "change of beneficiary" form and change it to the person of your choice.

One of the most popular ways of keeping assets out of your estate is by holding them in joint tenancy. If you are leaving property to your spouse, an adult child, or any other person, you may want to consider owning the property with that person as joint tenants. Joint tenancy means that you both have undivided ownership of the property while living and full ownership will pass automatically to the survivor at death. Probate is avoided because the property does not form part of your estate, but be careful you don't create other problems in the process.

Tax Consequences

The overzealous use of joint tenancy to avoid probate fees may serve to frustrate other tax planning. Where the property in question is a principal residence, exemption will be lost for all years your joint tenant does not continue to live there.

Except for your principal residence, property transferred into joint tenancy, with anyone other than your spouse, is deemed to have been sold at fair market value. This often results in an immediate taxable gain for the donor.

Keep Your Sense of Reality

Above all, don't get carried away in your desire to avoid paying probate fees. Immediate costs such as legal fees and other expenses may cancel out other savings. Joint Tenancy between spouses only defers payment of probate fees until the death of the surviving spouse.

Estate planning is one area where it is very easy to be "*penny wise and pound foolish*."