How Do I Reduce My Estate Taxes?

Before COVID-19, we often held client appreciation events including educational seminars on specific financial planning topics. To date, our most attended session was estate planning and strategies to reduce taxes. We never thought talking about death and taxes could fill a room.

Our previous article discussed potential tax implications when one passes, including income tax and probate fees. As promised, we are following up with strategies that can help reduce tax burdens:

1. **Have an up to date Will:** First and foremost, please ensure you have a Will in place. Please review it every five years or after any major life event (marriage, divorce, birth of children, etc.).

2. **Appropriate use Joint Accounts:** Placing assets/accounts in joint names with spouses or adult children can avoid probate, ease the transition and can help to ensure no bills lapse. Some examples include bank accounts, investments, vehicles, safety deposit boxes and household bills.

   There are some instances in which joint ownership may <u>NOT</u> make sense. For example, adding your adult child to the title of your primary residence could jeopardize the asset if s/he experiences a marital breakdown, business failure, or personal lawsuit. Furthermore, adding one adult child joint, but not all of your children could cause misunderstanding and/or potential strife. In addition, adding someone to title on primary residence could result in losing a some of the tax-free capital gain allowance.

3. **Have named beneficiaries:** Review your Retirement Saving Plans, Retirement Income Funds, Tax-Free Savings Accounts (TFSA), insurance and pensions. Remember to also check work policies and investments if applicable. Spouses should be designated successor annuitant for TFSAs so they can retain the full tax-free status within their TFSA.

   Sometimes it is wise to name your Estate as beneficiary on your RSP or RIF so the executor can facilitate distribution and pay taxes. This typically makes sense if single, divorced or widowed.

4. **Take more income now:** One of the consequences of losing a spouse is losing the ability to income split which can result in a higher tax bracket and loss of Old Age Security (OAS). Three common areas to consider are:

   I. Drawing RSP or RIFs down faster and/or earlier than age 71 - especially if you have larger balances.
   II. Harvesting capital gains each year from your non-registered investment.
   III. Drawing additional wages or dividends from your company.

   Pro tip: if you have a large amount of credits or deductions in any year (business or investment loss, charitable donation, medical expenses, etc.) be sure to review the merits of taking extra income to offset.

5. **Pre-Inheritance & Gifting:** Since there are no taxes on gifts, consider gifting to loved ones as a pre-inheritance while you are alive, so you can see them enjoy it. Please note, there are special consideration and attribution rules when gifting to minors.

6. **Charitable:** There are significant tax-breaks for the philanthropic. This can include strategies such as naming a charity as beneficiary on your RSP or RIF to eliminate the tax burden, gifting securities with large capital gains to charities, or making direct bequests in your Will.

7. **Insurance:** Insurance can help replace income, pay taxes (including large capital gains on a recreational property or business) and can be particularly useful for blended or complex family situations. It typically is paid out quickly, tax-free and kept private as flows outside the Will. There are additional opportunities for incorporated businesses.

8. **Consider Trusts:** Those with substantial assets can explore Trusts to help minimize tax, avoid probate, ensure proper distribution of assets, provide income and retain privacy.

The above is not an exhaustive estate planning list. Because every family has different dynamics and values and estate planning is complex, we strongly recommend that you seek professional guidance to build your estate plan.

Until next time…Invest Well. Live Well.
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