CAPITAL GAINS PROTECTION

TANGIBLE BENEFITS OF ESTATE PLANNING

When first introduced to the term “estate planning”, many Canadians consider it a service suitable for only the elderly. In reality, estate planning encompasses a wide range of options and solutions to achieve common goals shared by most Canadians. These goals may include:

- Transfer of property prior to, or after death, in a manner consistent with your wishes
- Maximization of after-tax estate value
- Reduction of taxes at death and for future generations

Planning ahead can enhance your assets for your heirs, without affecting your current lifestyle.

DON’T LET THE GOVERNMENT BE THE BENEFICIARY OF YOUR ESTATE

Through hard work and efficient financial planning, you have acquired assets that have increased in value over the years. For example, you may be the owner of a summer cottage, purchased 30 years ago for what now seems next to nothing. As the demand for recreation property has increased, the value of your cottage has risen immensely. But did you know that the growth in the value of your cottage carries a hidden tax bill along with it?

It’s a harsh fact that after working hard and paying taxes, the government may end up as a significant beneficiary of your estate through taxation upon your death. You may intend to transfer that cherished summer home or an investment property, business, or securities directly to family members, but without proper planning, tax issues may significantly influence the eventual settlement of your estate.

When you die or sell an asset, a capital gain or loss (the profit or loss resulting from the sale of the asset) is triggered. A percentage of the taxable capital gain must be reported for income tax purposes, creating a capital gain tax liability.

When you die, most assets can be transferred to a surviving spouse without triggering a tax liability. The income tax is deferred until your spouse sells these assets or upon his/her death. However, at that point in time, the tax will have to be paid. As a result of the deemed disposition rules at death, the tax due is often at the highest rate. Without adequate liquid assets, the very assets you cherish and wish to give to your heirs may have to be sold to pay the tax bill.

While your principal residence is not affected by the above rules, other assets will be, including a cottage, business, and investment portfolio.

EXAMPLE:

Mr. and Mrs. Smith own a home and cottage. Upon Mr. Smith’s death, his assets are transferred to Mrs. Smith. When Mrs. Smith dies, the assets are passed on to their children.

Principal Residence (Current value) (no tax liability)	$800,000
Cottage (Current Value) (Adjusted Cost Base-$50,000)	$400,000
Capital Gain on Cottage	$350,000
Taxable amount = 50% of Capital Gain	$175,000
Total Tax Liability ($100,000 at a 50%* tax rate)	$87,500

* Tax rates may vary

In the above example, the children are faced with a difficult situation. Without proper planning on the part of Mr. and Mrs. Smith, the estate could be forced into an undesirable financial situation such as taking a bank loan or liquidating assets in the estate to pay the tax. Life insurance can be the answer to cover this tax situation. Purchasing $50,000 of life insurance would provide the necessary cash to cover the tax bill and avoid selling the cottage.

USING LIFE INSURANCE AS PROTECTION

Are you aware that certain life insurance products are ideal for helping families cope with the tax liabilities at death? Life insurance is a cost-effective means of funding your capital gains tax liability – ultimately paying your tax bill at a significant discount.

BENEFITS OFFERED BY LIFE INSURANCE

Some of the unique benefits of life insurance include:

- Proceeds are paid directly to your estate or named beneficiary, tax free
- Pay out is based on estimated tax liability for the estate
- Coverage will never run out under permanent plans
- Accumulation of assets on a tax-preferred basis
- A wide choice of tax-sheltered investment options
- Adjustable asset allocation
- Insurance premiums can be guaranteed never to increase
- Flexible premium payments

WHAT CAN CIBC WOOD GUNDY DO TO HELP?

Depending on your personal circumstances, CIBC Wood Gundy can provide expert advice to ensure your Estate Planning settlement needs are met in the most cost-effective way.

For more information, please contact your CIBC Wood Gundy Investment Advisor, who can introduce you to one of our Estate Planning Specialists*.

SUMMARY

Life insurance is a straightforward solution for providing estate liquidity to cover the potential tax consequences of capital gains. Whenever there are capital gains at death, a life insurance solution should be a key estate planning consideration.

CIBC Wood Gundy Financial Services provides estate planning advice to our clients. We have Estate Planning Specialists* on our team, with extensive experience in dealing with many of the issues mentioned in this report. Working with your legal and tax advisors, they can help you design and implement your own customized plan.

INTENDED CLIENTS

Regardless of your intentions, when it comes to passing on valuable assets to your heirs, proper planning is imperative. If you are concerned about preserving the value of your estate and want to ensure your heirs acquire your estate in the most tax-efficient manner, talk to your CIBC Wood Gundy Investment Advisor, who can introduce you to an Estate Planning Specialist. Through innovative insurance solutions, they can help you plan for the eventual transfer of your assets.

* Financial Security Advisor in the province of Quebec