Shield your estate from tax attacks

How can you protect your family's wealth from the taxman?

Many retirees are expecting an inheritance from their aging parents. Unfortunately, many people will only get a portion of what they expected due to inadequate planning and high taxes to be paid on the estate.

You might expect a certain amount of inheritance, but once taxes are factored in, you end up getting much less than anticipated from the estate. The highest combined federal and provincial tax rate

Making **Cents**

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in B.C. is roughly 48 per cent for income above $202,800. That much income from an estate seems high, but it's more common than not.

Many retirees have registered retirement savings plans (RRSPs, RRIFs) above $200,000 and at death it gets taxed the same as regular income.

So it should not be a complete surprise to find an estate with a large tax bill.

It's also common to find retirees with an investment property or cottage with a large unrealized capital gain. Real estate in Metro Vancouver has easily doubled in the last ten years and for many retirees, it has probably tripled or even quadrupled over their lifetime.

It's worth mentioning that when assets are passed over from a spouse, the tax consequences are usually much lower.

This is assuming the registered assets, such as RRSPs, RRIFs, TFSAs, and locked-in RRSPs or RRIFs are being passed directly to the spouse and that the non-registered assets are held jointly with rights of survivorship. When assets are passed from your estate to your kids or anyone else, the tax liability is much greater. But with proper planning there are a few ways to reduce the estate tax liability.

On registered assets, having a beneficiary is important and will allow you to bypass probate without having to pay probate fees. In this situation, you're saving money on probate fees and not taxes. However, there are a few tax shelters available today to help reduce your estate tax liability. The biggest tax shelter is your principal residence. If you own several properties in the same region, ideally you want your principal residence to be the property with the largest unrealized gain or the one that will have the most growth. The tax-free savings account is perfect for tax and estate planning, but currently has a $52,000 lifetime contribution limit.

A more tax efficient way to pass over assets to your adult children is by gifting them money before reaching life expectancy. There are a few ways to do this. You can gift them money from your RRIF account by making extra withdrawals each year or you can gift it directly from your non-registered account, while factoring capital gains. Tax planning is important here, because you don't necessarily want to gift too much in any given tax year and find yourself in the highest tax rate by triggering significant capital gains.

There are a few things to consider before gifting money to your children. Are they financially responsible? Are they in a stable relationship with their spouse?

You may not want to gift money before a marriage breakdown and see it go to the spouse. Setting up a trust for these types of circumstances is often a possible solution, but requires expert advice and can be costly. If you would like to gift or lend funds to your adult children, but have concerns with regard to a marriage breakdown in the future, you might consider using a promissory note. Promissory notes – if structured correctly between parties – will reduce the risk of losing assets in the event your child has a marriage breakdown.

Having these discussions with your adviser can provide you with more insight on what you need to plan for your estate. The larger your estate, the more planning is required. If you have a good financial adviser, they will assist and create an estate plan that is customized to your personal circumstances and keep the tax collectors at bay!

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