Wealth Management
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Protect your assets from taxes and creditors

Strategy 4 – Effective use of surplus assets

By preparing a financial plan (see "Strategy 1 – Comprehensive financial planning"), you can determine if you have adequate income and assets to meet your retirement income needs for your and your spouse's estimated life expectancy.

If, after developing a financial plan, you determine that you have surplus assets you are unlikely to need during your lifetime, even under very conservative assumptions, you may want to consider ways to utilize those assets to fulfil some of your estate planning goals while you are living. This way, you get to see the difference your assets can make.

Three options include:

1. Lifetime gifts and trust planning
2. Purchasing a permanent life insurance policy
3. Charitable giving

Lifetime gifts and trust planning

Do you have surplus assets that you will definitely not need during retirement? Are you also planning on providing funds to your children or grandchildren in the future to help with things such as paying for education, purchasing their first home, starting a business or paying for their wedding?

If so, then it probably does not make sense to continue exposing the income from these surplus assets to your high marginal tax rate. Instead, consider giving some of these surplus funds to family members now, either directly or through a trust if you do not want the children to have control of these assets.

If you gift your assets to a child or grandchild, directly or through a trust, attribution of interest income and dividend income will apply if the child is under 18, which means that you will be taxed on that income. Capital gains are not subject to the attribution rules for a child under 18. If you are concerned about direct gifts to your children, then lending funds and providing your children with only the income earned on these funds is another effective strategy, as you can call the loan principal back any time. If the children are minors, a loan to a family trust at the CRA-prescribed rate may accomplish the same thing.

See the Wealth Management Report "Strategy 9 – Family Income Splitting" for more information about income splitting with family members.

Permanent life insurance

Do you have surplus assets that you wish to pass on to your heirs when your estate is settled? If so, it probably does not make sense to continue exposing the income from these assets to your high marginal tax rate.

You may consider speaking to your insurance representative about putting these highly taxed (typically interest-bearing) assets into a permanent life insurance policy. Some permanent solutions may include tax-exempt life insurance, which allows you to make deposits in excess of insurance costs (within policy limits) in investment type accounts. Insurance benefits typically include this exempt account value.

Under the Federal Income Tax Act, assets accumulate within a tax-exempt life insurance contract free of annual accrual taxation. When you pass away, proceeds of the policy are distributed to your named beneficiaries on a tax-free basis outside the scope of your estate, bypassing its associated costs.

The use of permanent life insurance provides the ability to manage your tax risk today and in the future. It is important to keep in mind that you must medically qualify for coverage in order to purchase life insurance and implement this type of strategy.

Charitable giving

If you want to give some of your surplus assets to charitable organizations, you have many options that can help you create a charitable legacy while providing some tax relief. These include giving directly to qualified charitable organizations, creating a private foundation or donating through a public foundation.

Recent tax changes also make it more attractive to donate publicly listed securities such as shares that have appreciated in value. Now, when you donate publicly listed securities directly to a qualified charity, you are completely exempt from capital gains tax. Ask to see the Wealth Management Report "Strategy 7 – Charitable Giving" for more information about tax-effective charitable giving strategies with surplus assets.

Note that due to the potential of escalating health care and long-term care costs, it is essential that you be prepared for these contingencies before redirecting your surplus assets. Critical illness insurance, long-term care insurance and easy access to credit are a few options to consider.

Family wealth management tip

If you have assets accumulating in a corporation, bear in mind there may be a higher tax rate on investment income earned in a corporation than on investment income earned personally. Furthermore, there is a potential for double taxation related to the assets inside a corporation at death. As a result, corporately owned tax-exempt insurance is an attractive solution for surplus funds accumulating in a corporation. This way, the surplus assets in the corporation can grow tax-free during your lifetime and proceeds in excess of the policy's adjusted cost basis may be paid as a tax-free capital dividend to shareholders or successor shareholders.