Wealth Management
Dominion Securities

Your 2017 financial "spring cleaning" to-do list

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After the snow melts and the winter coats have been put away, many of us turn to spring cleaning to de-clutter everything from our closets to our finances. Even if you're a regular "pack rat" these 10 tips will help you – and your family – to reduce paperwork and start the season off on a fresh note.

1. Get to de-cluttering – starting with your finances

Consolidate accounts

If, over time, you have opened several accounts at different financial institutions, you may find it redundant to manage the additional administration, statements, meetings with multiple advisors and duplication of fees and investments. You can simplify all this by consolidating accounts with one full-service financial institution that can manage it all on your behalf.

You can also reduce your paperwork by setting up online banking arrangements, pre-authorized bill payments, electronic funds transfers, eDocuments and pre-authorized contributions for your RRSP, TFSA, RESP and stock savings plan contributions. Many financial institutions, utilities and phone and cable companies offer an online service to help the environment while reducing your paperwork, and you can speak to us to switch to eDocuments for your RBC® accounts.

2. Use family income-splitting strategies to reduce taxes

In Canada, the more you earn, the higher your tax rate. If you're a high-income earner, you may be able to reduce your family's overall taxes by transferring some of your income to lower-income family members, who are taxed at a lower rate. One strategy is the Prescribed Rate Loan Strategy, by which you loan money to a low-income family member who then uses the money to invest. Generally, as long as the family member pays you at least the CRA-prescribed rate of interest on the loan amount no later than 30 days after year-end, the investment income is taxable to them, not you, at their lower rate.

You can also transfer income that otherwise may have been taxable at your higher rate by gifting money to family members aged 18+ to contribute to their TFSAs. All the investment income earned in your family's TFSAs grows tax-free. It is not taxed back to you, even though you provided funds for their contributions.

Spring is a good time to review your insurance coverage to make sure it still meets your current needs.

If you own a business, consider adding lower-income adult family members (excluding spouses) as shareholders of your business (directly or through a family trust). You can pay them dividends that are taxable at their lower tax rates, and your family members could potentially each use their lifetime capital gains exemption should you sell the business.

3. Schedule a review of your asset mix

Your after-tax investment returns can be largely dependent on how your portfolio is allocated between stocks, fixed-income investments and cash. Some strategies that may be useful for your portfolio include:

- Hold more of your interest-bearing investments in your RRSP/RRIF, where the taxes on interest are deferred.
- Hold more of your equity investments outside your RRSP/RRIF, because capital gains and Canadian dividends receive preferential tax treatment.
- Speak to a cross-border tax advisor about holding individual U.S. stocks in a Canadian holdco to potentially minimize U.S. Estate Tax, especially if you are a Canadian resident, not a U.S. citizen, green card holder, or U.S. resident, with a net worth over US $5.49 million and considerable U.S. equity investments.

4. Make your debt "smart"

Review your debt with your banker or financial planner to determine if any of the interest you're paying might be tax-deductible, or if you can restructure your loans and your assets to reduce interest costs or make the interest tax-deductible.

5. Review your family's insurance coverage

Spring is a good time to review your insurance coverage and allocations to make sure they continue to meet your needs. Ensuring that you and your family have adequate financial resources to maintain your standard of living in the event of illness and/or death are key components of your wealth planning. A qualified life-licensed insurance advisor can analyze your current and future needs, review your existing insurance policies and make sure you have the right solutions and coverage. It doesn't take long and will provide you with peace of mind knowing that both you and your family will be protected should the unthinkable happen.

If you are a business owner, it's important to be aware of the many opportunities insurance can provide. Available solutions may be useful for paying taxes at death on business shares, funding buy/sell agreements, insuring key people, equalizing inheritances for children outside the business, transferring surplus cash in a holding company to the next generation, and more.

Speak to your legal advisor for advice as you are getting your Will updated.

When considering the legal ownership of an account, bear in mind that joint ownership with your spouse may reduce the amount of probate tax payable on death in some provinces.

6. Check that your Will and power of attorney (POA) are still current

A study by LAWPRO revealed that 56% of Canadians do not have a signed Will.[1] Even if you have a signed Will, it could be out of date or overly simple, potentially resulting in higher taxes and family disharmony.

Give your family and yourself peace of mind by booking an appointment with a legal advisor who specializes in estate planning to get an up-to-date Will and a Power of Attorney (POA, or Mandate in Quebec) for both medical and financial affairs. For most people there is a higher probability of becoming disabled than dying before age 65[2], so having a POA is critical to ensure your wishes are followed in the event that you are unable to express yourself. Keep a copy of your Will and POA in a fireproof safe, or with your legal advisor.

7. Establish appropriate account structures and beneficiary designations

List every one of your accounts, including any accounts through your employer (employer pension, stock savings plan, etc.), and ask yourself these two questions: “How is this account legally owned?” and “Who is the beneficiary?”

When considering the legal ownership of an account, bear in mind that joint ownership with your spouse may reduce the amount of probate tax payable on death in some provinces. However, joint ownership may not always be appropriate. For example, if you are in a second marriage and have children from a first marriage, you may not want joint ownership with your second spouse as they would be under no obligation to provide your children with an inheritance. In addition, joint ownership with adult children should be consistent with your estate distribution intentions; otherwise it may be challenged in court.

Next, look at any accounts that permit beneficiary designations such as pension plans, RRSPs/RRIFs, TFSAs and insurance policies. Are these beneficiary designations current? Should you even name a beneficiary? Rather than having your assets go directly to a family member after your death, it may be more appropriate to have them go through your estate in certain situations, even though probate tax is payable.

The appropriateness of your account structures and beneficiary designations will depend largely on how you intend to have your estate distributed, so speak to your legal advisor for advice as you are getting your Will updated.

[1] “Survey: More than half of Canadians do not have a signed will.” Lawyers’ Professional Indemnity Company. May 7, 2012.
2. Source: insureright.ca “What’s the risk?”.

A Family Snapshot® summarizes your financial life in one document.

Please contact us for more information.

8. Establish a family giving strategy

Consider whether your family's charitable giving could be more effective with a family foundation – which you can start with an irrevocable donation of as little as $25,000. This option is one way to create an enduring charitable legacy beyond one-time cash donations. Speak to us if you want more information on how to set up your own foundation or donate your money more tax-effectively (for instance, with stock or gifts of insurance).

9. Take a Family Snapshot®

Between today's longer lifespans, inflation, taxes, health-care costs and our own lifestyle expectations, retirement may cost more than you think. And if you're a business owner, you may have other considerations like converting the equity in your business into a satisfying retirement income.

A Family Snapshot® summarizes your financial life in one document, making it simple for you to understand where you stand now and, with annual updates, how you are progressing from year to year.

It provides a quick retirement and insurance projection, as well as a Wealth Management Opportunities Report of tax, estate and retirement planning strategies specifically applicable to your family.

If you have a high net worth and your situation is more complicated, you may wish to get a COMPASS comprehensive financial plan that addresses all aspects of your financial affairs, including cash and debt management, tax and investment planning, risk management and retirement and estate planning. Speak to us for more information.

10. Make sure you're not missing out on special strategies for high-net-worth families

If you have investable assets of at least $1 million, you should also speak to your advisor about getting a copy of our publication *Family Wealth Management — Ten Strategies to Build and Protect Your Family's Wealth*. In it, we highlight strategies for families who face unique financial challenges due to having more financial resources than the average Canadian family. Contact us for your complimentary copy.

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