Wealth Management

Protect the value of your estate assets

You have worked hard all your life and made sacrifices to build your wealth. Like most of us, you probably want to ensure that once your retirement has been secured you adequately plan for the wealth you leave behind to your loved ones. This extends beyond your investments and includes your home, family cottage or other important assets.

Adequately plan for the wealth you leave behind.

Unfortunately, without proper planning, the value of those assets could be reduced by a tax bill. Your estate may not have enough liquid assets or cash on hand to pay the tax bill and decisions may have to be made on which assets to sell to fulfill that obligation.

When you pass away (if you are not able to roll over assets to your spouse), registered assets as well as gains on non-registered investments and property (excluding your principal residence) will be included in your income in the year of death.

While the tax bill may be relatively low today it may increase over time as your assets increase in value, so your family is not only inheriting the assets but also the tax bill.

Protecting wealth through planning

The Asset Protection strategy is an effective solution to the dilemma faced by your family when the time comes to settle your final tax bill.

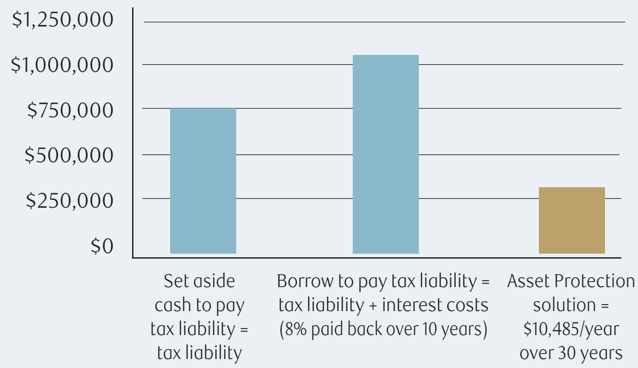
Once integrated into your overall financial plan, this strategy will help to protect the value of your assets and provide your heirs with the funds necessary to pay the taxes due when you pass away, all for just a fraction of the potential tax bill.

The Asset Protection strategy uses permanent life insurance, to manage the tax risk today and in the future so you must qualify for coverage in order to implement the strategy. The insurance premium relative to the benefit makes it an extremely cost-efficient method of covering your future tax liability.

Some permanent solutions may include tax-exempt life insurance, which allows you to make deposits in excess of insurance costs to grow in investment type accounts inside the policy tax-deferred. Insurance benefits may also include this exempt account value.

Saving estate values through the asset protection strategy

Compared to borrowing or using cash to pay the tax, the Asset Protection strategy is a cost-effective way to protect the things that are most important.



Depending on the province you live in, registered assets are taxed from 48% to 54% and capital gains (from assets such as non-registered investments or secondary properties) from 24% to 27%. Shouldn't these values go to your heirs?

[1] Source: Manulife Financial as of February 5, 2020 Manulife UL level cost of insurance, universal life insurance, joint last to die basis. These values are for illustration purposes only and are not guaranteed.

Results

The Asset Protection strategy considerably increases the value of the inheritance left to your family by partially or totally covering the taxes that will be payable by your estate upon your death. It helps preserve the value of your legacy.

Asset protection case study

Jack and Mary (both 60) have three children, a retirement plan with their advisor, a comfortable home and a cottage that their family retreats to every weekend which has been in the family for generations. They're well invested and have assets of approximately $2,500,000.

They never realized that their estate would grow to over $4.9 million by the time they reach 90 – a significant inheritance for their children. Nor did they realize that, if they both died today, they would owe $500,000 in taxes. At age 90, the tax is estimated to be $750,000 or 15.3% of their total estate.

The solution

Jack and Mary use the Asset Protection strategy to minimize the erosion of their assets. They purchased a permanent tax-exempt life insurance policy for $750,000 to protect against their future tax liability. Jack and Mary selected a policy that pays a benefit at the death of the last surviving spouse. The couple decided to pay annual premiums of $10,485[1] (just under 1.4% per year of their tax liability at age 90) for as long as they both live. While their estate must pay the tax liability, the tax-free life insurance proceeds maintains the value of Jack and Mary's estate and protects the assets that are most important to their family.

Depending on the province you live in, registered assets are taxed as high as 54% and capital gains (from assets such as non-registered investments or secondary properties) as high as 27%. Shouldn't these values go to your heirs?

To learn more, contact us today.

Tax treatment on accumulated assets at any disbursement

Asset	Taxable portion	Comments
Principal residence	0%	
Secondary residence / Rental property / Land	50%	Amounts taken for any depreciation claimed will be 100% taxable.
Non-registered investments	50%	Includes stocks and mutual funds (excluding TFSAs).
Registered investments	100%	Includes RRSP/RRIF and other registered plans. These are composed of income that has never been taxed before.
Small business shares	50%	Less any qualifying capital gains exemptions up to $800,000.