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Six strategies to consider now


Mark Halpern

COVID-19 is taking its toll in every corner of the world. As researchers work to conquer the invisible enemy, we are more mindful of our own mortality and keenly aware of how lucky we are to have family and friends.

Financial advisors are getting calls from clients who want to increase insurance coverage, and ensure that a surviving spouse has the financial means to pay the mortgage, send kids to university, deal with bill collectors and the Canada Revenue Agency.

As you may know, my path to this profession began when my late father suffered a fatal heart attack in 1974. My family's financial health was in jeopardy, there was no will, no life insurance, and no key to a safety deposit box. My late mother, then 48, had to rejoin the workforce. Today, I work to prevent the same thing from happening to other families.

Getting new life insurance has never been easier — insurance companies have temporarily relaxed underwriting requirements - with no medical required and no visits from a nurse to obtain your vitals, blood, and urine samples. You can now get up to $2 million of life insurance and $250,000 of critical illness insurance in about 15 minutes, simply by answering a few questions on the phone.

No in-person meetings with an insurance advisor, underwriting completed quickly, policy approved within 72 hours. If you have had an executive medical within the last year, some insurers are offering up to $5 million in life insurance.

This pandemic requires a fresh look at your estate planning. Here are six strategies to consider.

Wills: Your will is the bedrock of estate planning, a document that informs your executor(s) how you want your assets distributed when you die.

Without a proper will, the government may decide who gets your assets and your estate can incur otherwise unnecessary legal and accounting fees, probate fees and taxes.

You should review your will annually to ensure everything is up to date, taking careful note to include a new spouse or grandchild.

Use our free Estate Planning Toolkit (details at the end of this article), to get organized.

Realize value on owned policies and save taxes: Most people buy life insurance – either term or permanent insurance –anticipating that the proceeds of the policy will go to family and/or charity. Sometimes their policies are no longer needed or become unaffordable.

Most policy owners don't know that their unwanted policies may have genuine financial value that can be realized and put to good use for charitable purposes and to save taxes.

You can borrow against the cash surrender value (CSV) of your permanent life insurance contract that has built up over time. Investors and business owners who need funds for business opportunities, emergencies or to help supplement their retirement particularly favour this approach. Taking all the CSV would terminate the policy, so the situation requires expert advice.

It's important to know that taking a policy loan can create income where the loan amount exceeds the adjusted cost basis (ACB) of the life insurance. Business owners can consider creating a policy gain in a loss year to utilize losses. When times are better, the policy loan can be repaid. This repayment can create a deduction that corresponds to the policy gain created by the initial policy loan.

Immediate Financing Arrangements (IFAs): Most people who buy life insurance are unaware of tax-effective leveraging strategies that can allow them to protect and grow their wealth cost-efficiently while enjoying tax deductions.

When asked, most business owners would prefer to tie up as little of their cash as possible on life insurance premiums. They would like to have access to the money allocated to insurance premiums for use in other places, like a business or investment portfolio that will reap profits for them.

Many of our clients use the IFA leveraging strategy to acquire their life insurance. Simply put, they pay the premiums and immediately borrow back those funds from a bank. This allows them to get life insurance at a fraction of the true premium cost, without reducing cash available for their use. As a result, they enjoy tax benefits and increase their estate values.

For additional details, read my Investors Digest ® article of Aug. 25,2017 "Leverage and Life Insurance".

Capital gains/loss selling: People typically buy securities anticipating an increase in value over the years. But with COVID-19 pulling down that value, you may consider selling at a loss now to offset gains you have made. If you do this, make sure to wait 31 days before you buy back those securities.

There are two kinds of corporate losses. The first is business losses that are created by active business operations. These losses can be carried back three years and carried forward for 20 years, and can be offset against any income of the corporation.

The second type of loss is capital losses. Capital losses can only offset capital gains, can be carried back three years, and carried forward indefinitely. In today's environment, consideration should be given to the Capital Dividend Account (CDA) tax implications. Before triggering any losses, think carefully about the CDA implications and paying out any capital dividends.

Estate freeze and refreeze: According to our tax laws, taxpayers are deemed to have sold all their property at fair market value immediately before they die. This often results in a hefty final tax bill, eroding the estate that gets passed on to beneficiaries.

Take the example of a woman in her 50s who sought our advice on behalf of her siblings and elderly parents.

Their mother, 85, and father, 90, own a portfolio of commercial real estate worth $50 million but do not qualify for life insurance by virtue of their ages and poor health. At one time, the family could have bought inexpensive life insurance to offset the $10-

million tax liability that will be due when the parents die.

The family could have instituted an estate freeze, a tax-planning strategy in which the owner/parents give their children shares in a family business. This technique allows families to cap their own tax liability when transferring their shares to someone else. That way, the future growth of their business would have accrued to the children, who could do their own planning.

Because they didn't seek advice from an estate planning professional years ago, the adult siblings will have to sell valuable income-producing assets just to pay the tax bill when the parents die.

Instead of waiting as these people did, you should understand that right now is a great time to get an estate freeze or even a refreeze. For example, if you had done an estate freeze when the market value of your business was $10 million and it's now worth $6 million, think about refreezing at the reduced value and buying life insurance to cover that tax exposure on the reduced $6-million valuation.

Prescribed rate loans: Taxes can eat away at your savings quickly. Strategies are available to help reduce that tax burden. "Prescribed rate loans" are an income-splitting strategy that may be appropriate for you. This works best when one spouse or partner has significantly higher income that gets taxed at a higher marginal tax rate than the other.

Typically, if you gift cash or investments to a spouse, minor child or even a family trust, the income from the investment will likely be attributed to you - the person who made the gift.

A prescribed-rate loan is an exclusion to the attribution rules. The prescribed rate is set every quarter by Canada Revenue Agency. The prescribed-rate loan strategy allows for the lower-income spouse and/or minor children to have the income taxed in their hands as long as they pay the prescribed rate of interest each year to the higher-income spouse and by Jan. 30 of the following year. The tax department announced the new prescribed rate is one per cent in this quarter. There has never been a better time to use this strategy for your family.

Don't do it alone

Comprehensive estate planning and tax-friendly structuring of your investments requires professional help. Don't do it alone, especially if you are the custodian of family wealth for the next generation. The Canada Revenue Agency is your uninvited silent partner waiting patiently for "a piece of the action." Proper planning will ensure you have organized your affairs in the most tax-efficient manner and won't be required to pay a dollar more than legally required.

Our advisors are available to help you across the country. Please do not hesitate to contact us to arrange your personal, no-obligation consultation. It will be time well-invested.

Times have changed. Social distancing is the new norm, and we've learned how to work from home, helping clients with meetings on the phone, Skype, and Zoom. We want to wish you and your families continued good health. Stay safe.

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP), Master Financial Advisor – Philanthropy (MFA-P™), and CEO of WEALTHinsurance.com®. He provides special expertise and tax-friendly insurance strategies in the areas of Estate Planning, Life Insurance and Philanthropy for business owners, entrepreneurs, professionals and high net worth families. Mark can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com.Visit WEALTHinsurance.com. Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html. The 2020 Toolkit now includes: Estate Directory, Estate Planning Checklist, Executor Duties Checklist, Business Owners Planning Guide.