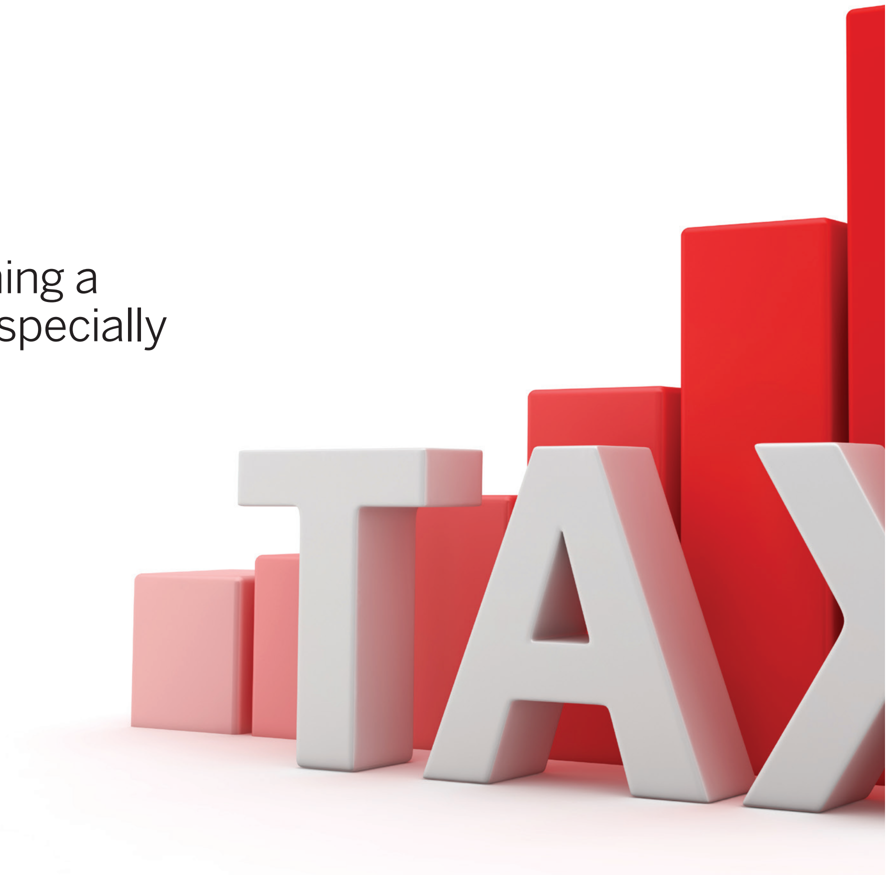
Life, death and taxes

Life insurance policies are becoming a popular way to limit tax liability, especially among higher earners in Canada



IT IS PERHAPS a misconception that the affluent members in society are likely to have their financial affairs entirely in order. After all, what made them wealthy in the first place was an ability to manage money and create more of it, right? In reality, that's a simplistic view – as Mark Halpern of WEALTHInsurance.com reveals, his high-net-worth clients are often the ones most likely to have little or no long-term planning in place for their own personal well-being.

"The majority of the people I see, perhaps 85%, are so busy looking after their business that when it comes to themselves, they really haven't done the planning that's necessary," Halpern says. "Many don't even have a will, or it's not up to date. They haven't looked at probate taxes; they haven't crystallized tax liability or looked for ways to protect themselves in case they get sick or die."

In business, as in life, it is best to always be prepared. Your business may be consistently generating profit, but that doesn't mean that will continue in perpetuity. Despite that, many professionals, executives and entrepreneurs continue to ignore the possibility of a rainy day – both financially and physically.

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"The first thing to consider is having a will," Halpern says. "I have met guys with estates of over $100 million without a will. I just had two partners come to my office with a $15 million business with no partnership agreement, no wills, no power of attorney and no insurance either."

The reasons for this are simply explained, albeit hard to understand, considering the implications of such oversights.

"People think of life & health insurance like a grudge purchase, much like their house or car insurance," Halpern says. "They buy it to replace lost income, or pay for their kids' education, or pay off their mortgage, should they die early. That is what the majority of people use the insurance for."

That is changing, however, and life & health insurance is becoming much more of a tool for savvy investors. One of the primary reasons for that is its tax-limiting capabil-

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ities. That's becoming more attractive now that the Liberal government has committed to an infrastructure building project across Canada that's projected to cost around $125 billion over 10 years; the Trudeau administration hasn't been shy about its plans to pay for the project in part with taxes on higher earners. Pushback to the plan has increased the client base for those who specialize in such matters – Mark Halpern included.

"As someone's assets increase, you know the government is going to have its hand out the minute a husband or wife dies, looking to get between 25% and 65% of those assets," he says. "So people use insurance to pay those tax bills instead of the family coming up with the money."

Based in Markham, Ontario, Halpern uses Canada's most populated province as an example of the tax liability imposed on higher earners. When provincial and federal income taxes are combined, individuals in this bracket often end up paying more to the government than they keep themselves, a situation that is anathema to most people.

"It's 53.5% for personal income for those earning above $200,000 per year," Halpern says. "Added to that, if they have a company and they are investing, the tax there is 50.17%. So for the first time in Ontario, the tax regime means people are paying more to the government than they are keeping for themselves. The Liberals have made clear their intention to take more from the wealthy to benefit the middle class.

"If you're only paying 25% tax, most people are fine with that; it's the price of being a Canadian citizen," he continues. "But when the government is taking more money than you get to keep yourself, people will look for opportunities to mitigate that tax liability. That's where insurance comes in."

It's an idea people are increasingly turning to, but for those looking to reduce their tax bill in the long-term, they need to strike while the iron is hot. In this case, that means before the end of this calendar year.

"January 1, 2017, is an important date because the tax-exempt status of life insurance is coming down," Halpern says. "That's why the banks and most of the major providers are pushing people to get grandfathered in before that date." LHP

4 WAYS TO REDUCE TAX LIABILITY

The Liberal government's tax policy has not been welcomed by many higher earners. Those earning above the $200,000 per year threshold have been identified as a key source of funding for Ottawa's $125 billion nationwide infrastructure plan over the next 10 years. For those looking for legal ways to minimize their tax liability, there are a number of options available.

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