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TAXMATTERS

What you should know

Death & Taxes

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My path to this profession began when my late father suffered a fatal heart attack at the age of 50. I was 11, the youngest of four boys. In a sudden and shocking instant, our lives changed forever. My family's financial health was in jeopardy: there was no will, no life insurance, no key to a safety deposit box, and no savings to speak of. My late mother (then 48) was forced to re-join the workforce to support us. I'll never forget what happened to my family.

That's why my professional life is devoted to protecting clients from 'what happens next' and ensuring that no one else would have to go through that devastating financial experience.

That life-altering event comes back to me every time I attend a funeral. While others are there with heartfelt sympathies and generous memorial donations, I am often there as a financial advisor with something different: a cheque from an insurance company that enables the family to move forward financially, without worrying how to get by day to day.

The same applies for business partners so they can continue providing their products and services to clients and keep their staff on payroll. No matter how substantial the cheque, and although it might not help the bereaved get over their grief any faster, life insurance proceeds give beneficiaries important financial breathing room.

So when I began to write this TaxLetter® on the subject of what happens when somebody dies, I realized the more appropriate question would be: What should you do now, while you are alive? What steps should you take today to ensure that everything is well-organized for your executor and family when the inevitable occurs?

Develop a plan

The first step is to get help from experienced professionals to develop an estate plan that will preserve and protect your assets while you are alive and after you die. It will also direct how your assets get distributed upon death and set a plan in place to minimize the effect of taxes on your estate, reduce estate administration costs and protect your family members.

Make a will

The cornerstone of any estate plan is a valid, up-to-date and properly executed will. More than half of Canadians do not have a signed will. Do you? Beyond family strife, the damage caused by not having a proper will includes paying more tax needlessly, incurring unnecessary legal, accounting and probate fees, and suffering avoidable business interruption.

Your will can facilitate tax-minimization strategies and include donations to favourite charitable organizations which qualify for a charitable tax credit, and lower your final tax bill. This is the time, while the sun is shining, to make your wishes known to a wills and estates lawyer to ensure the necessary documents are written up properly.

During this process, you will need to appoint an executor, the person who will have the legal responsibility to settle your estate after your death. Depending on the size of your estate, this could be a multi-year process, so the person you select must have the skill set, time and fortitude to carry it through. The ideal executor should live near you, be willing to learn, be experienced at managing money, and calm when dealing with emotional family members and other beneficiaries.

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You should also designate an alternate executor in case the primary executor bows out due to illness or is otherwise unable or unwilling to be the executor.

If you are married, there is a good chance that you and your spouse have independent wills that leave a great part of your respective estates to each other. When a spouse dies, it is important to get a new will, bearing in mind that your decisions will affect you, your children and future generations. A new will may also require appointing a new executor. In addition to completing a will, you also need two powers of attorney -- one for property and one for health. ,

Be sure to review your will annually, and update all designations on your registered plans, pensions and insurance policies. The last thing you want is to leave a portion of your estate to an ex-spouse or partner, or fail to include a newborn child or grandchild. Think ahead.

No tax is incurred when one spouse leaves funds to another spouse from an RRSP or a RRIF. But after the death of the second spouse, the government automatically gets a share of your remaining estate. For example, 53.53 percent of your RRSP/RRIF savings goes to taxes. So does 50.17 percent on holding-company investment income and about 26 percent of your accumulated capital gains from investments, real estate and business equity.

Life insurance proceeds can mitigate those losses and leave more tax-free money for your beneficiaries. Wouldn't you prefer to leave your money to your family and favourite charities instead of the federal government?

Ensure that a child or grandchild with special needs is properly looked after. Consider income-related strategies, like Henson Trusts, that provide government help and are widely considered the most tax-efficient way to save for a disabled child. Carefully select a trustee to oversee the assets in a Henson Trust because the trustee has absolute discretion on how to spend the funds once it goes in to motion.

Leave a legacy.

Discuss the importance of charitable giving with your children and your grandchildren. Start a donor-advised fund within a public foundation to get your family personally and directly involved, rather than making a one-time gift.

Estate Planning Toolkit

Tell your spouse, adult children and executor where your important documents are kept so they can easily locate bank accounts, investment accounts (RRSPs, RRIFs, mutual funds), insurance policies, contact information for accountants, lawyers, brokers, financial planners, etc., wills and other legal documents like powers of attorney, as well as digital passwords and log-in information for online financial activities. It may seem like a long list, but you probably have more to add.

You probably don't want to disclose how much you have left to each of your children, but at least they will know where the information is kept and be able to find them quickly in an emergency.

All of my TaxLetter® articles conclude with a reference to an Estate Planning Toolkit available free at my website. It contains more ideas and thought starters on the important issues you can deal with now while you are able to do so.

Executor Duties Checklist

Are you an executor for someone's estate? The Toolkit includes an Executor Duties Checklist with the tasks you need to perform after a person dies. Before you commence any of these duties, you might want to consider buying executor insurance in case any claims are made. At the very least, carefully consider your role before agreeing to it. These jobs include:

- Locating the will
- Hiring a lawyer
- Opening an estate bank account
- Collecting income generated by estate assets
- Paying bills, mortgage, property taxes, credit card bills
- Cancelling deceased's health insurance and driver's license
- Preparing an inventory of assets, including life insurance and investments
- Setting aside a fund to pay for debts and taxes
- Preparing an interim distribution to beneficiaries
- Arranging the rollover of RRSPs/RRIFs
- Obtaining a clearance certificate from Canada Revenue Agency
- Closing the estate bank account

This task list, while not exhaustive, is a preview of the important responsibilities that await an executor.

A discussion about death and dying is never easy, and an always important task. Getting your financial house in order now will preserve more for your family, less for the tax department and reduce the pain and anxiety of surviving family members. I know. I lived through it. ❐

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Get your FREE Estate Planning Toolkit at www.WEALTHinsurance.com/toolkits.html
The expanded toolkit now includes:
Estate Directory, Estate Planning Checklist, Executor Duties Checklist, Business Owners Planning Guide. Visit www.MarkHalpern-Blog.com and sign up for free updates.