The TaxLetter®

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ESTATEPLANNING

Do It Now (Part 2 of 2)

A To Do List

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Most people know what insurance is … they just don't know what it can do for them. No matter the 'stage' of this horrible pandemic or which chapter of the "new normal," insurance of all kinds should be a key plank in your life, your business and your estate planning.

Our last TaxLetter® article explained the importance of a will, power of attorney, beneficiaries, and executors. This next set of must-haves includes life insurance, retirement and investment planning and planned giving.

Life insurance

Why life insurance? It is the only financial product that helps people achieve all the following:

☛ Create liquidity at the time estate taxes are due to avoid the forced sale of assets

☛ Protect a family or business against the sudden catastrophic loss of a key person

☛ Fund specific inheritances to heirs or charitable bequests

☛ Establish a guaranteed, fixed-income investment within a family's intergenerational asset allocation

☛ Secure maximum value of their business for succession planning, and pay minimum tax

☛ Achieve the peace of mind that comes from knowing that their affairs are properly organized

It enjoys unique treatment under Canada's Income Tax Act, as all benefits are paid to beneficiaries tax-free, independent of the will and bypassing probate. But it can be much more than that.

Many people tend to overlook the financial value of their existing insurance, including term. For example, we recently helped a woman in her 60s convert her unwanted term policy with no medical requirements and donate it to her alma mater. In return, she received a $170,000 charitable receipt for her generosity and saved $85,000 in income taxes.

Tax-savings for Business Owners

Permanent life insurance helps incorporated professionals and business owners increase cash flow and pay less tax.

Most people would prefer to tie up as little of their cash as possible on life insurance premiums. They prefer to use it in other places, like their business or investment portfolio that will reap profits for them.

Most buyers of 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. (See "Life Insurance Options: Borrow, Rent or Buy" my TaxLetter® article from July 2019)

Many of our clients use a leveraging strategy known as an Immediate Financing Arrangement (IFA), to acquire their life insurance. Simply put, they pay the premiums and immediately borrow back those funds. This allows them to get life insurance at just a fraction of the true premium cost, without reducing cash available for their use. As a result, they enjoy tax benefits

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and increase their estate values.

Structured properly, the insurance policy is used as collateral for a line of credit with a Canadian chartered bank. As you pay the ongoing premiums for the life insurance policy, you are eligible to borrow as much as 100 per cent of the cash surrender value "CSV". The loan is typically paid off at death using the life insurance proceeds. The balance can go to family and/or charity, tax-effectively.

For more details read my Mar 2016 article "Using Immediate Financing Arrangements (IFAs) to Acquire Life Insurance and Preserve Cash"

Corporate-Insured Annuity

This is a great business strategy for those over 60 who wish to reduce final taxes, and ideal for those who are major shareholders of a private corporation with surplus capital not required to operate the business.

Structured properly, it will maximize your after-tax retirement income on a guaranteed basis and enhance your estate's value in favour of your heirs.

From Taxable to Tax-Exempt

Investors should also consider moving some of their taxable investments in their portfolio into tax-exempt life insurance. This way, the CSV of your insurance will grow tax-exempt and accumulate funds that can be accessed any time during your lifetime, for yourself, investment opportunities or retirement. Again, on death, the benefit proceeds are paid out tax-free if the policy is owned personally, or with little tax if owned corporately.

Health insurance

We thankfully live in Canada where our taxes cover basic and emergency health coverage – but not everything is covered and wait times for medical treatments grow longer as our population ages.

That's why 26 million Canadians have supplementary health insurance. For those not covered under a company plan, it's important to know whether you have other plans like long-term disability insurance, critical illness or long-term care insurance to carry you through should you need it.

Long Term Care Insurance (LTC)

COVID-19 has underscored the importance of long-term care insurance (LTC), which kicks in if you become unable to care for yourself and need assistance to manage daily living activities. Most plans stipulate that you must be incapable of performing two or more activities of daily living by yourself, such as bathing, dressing, eating, or thinking clearly.

It's not only for seniors. At any age, you may become unable to care for yourself for 90 days or more, and LTC insurance can cover some of the costs. It can also manage your care and your expenses if you have an unexpected accident that requires assistance from a family member or care giver. (Read my TaxLetter® May 2019).

If you are healthy and contributing $1,000 a month to your RRSP, you should consider reducing those deposits to $500 a month and use the remainder for an LTC product. It's a defensive strategy that won't create a big hole in your ultimate retirement goals and will make a big difference if you fall ill.

If you are a traveller (or hope to do more travelling when we come to grips with COVID-19), get travel insurance. Your provincial or territorial health plan may not cover any medical fees outside your area, or only a small part of the costs of your medical care abroad.

Property & Casualty Insurance

If you own a car, a house, a cottage, a condo or work full-time from home, you need insurance in case of accident or natural disaster.

Experts recommend cyber liability insurance to cover financial losses that result from cyber events such as data breaches and data attacks.

Professionals like doctors, engineers and architects need Errors and Omissions insurance in case there is a claim of error or negligence when a professional service was performed.

My TaxLetter® article of July 2018 "Specialty Insurance" provides more detail.

Retirement Planning

RRSPs came along first, and then Tax-Free Savings Accounts (TFSAs). Business owners and incorporated professionals who want a bigger retirement nest egg now should consider getting an Individual Pension Plan (IPP).

It acts as both a defined benefit pension plan that allows for a greater contribution – and as a defined contribution plan option for flexibility. Using the IPP you can earn as much as 65 per cent more than allowed under an RRSP, depending on your T4 income and years of service.

Another important IPP feature is the Additional Voluntary Contribution that allows you to transfer any remaining RRSP assets into the IPP and get the tax deduction of fees and the creditor protection of plan assets.

The IPP objectives are to lower risk and achieve a steady return of 7.5 per cent a year. Should investment returns fall below that, additional tax-deductible "top up" contributions are made to bring the plan in line.

IPPs also offer tax deductions to your corporation. And if your spouse or children are employed in your business and earn T4 income, they can become members of the IPP as well. This allows IPP assets to pass to the next generation without incurring tax or probate fees – a major benefit not available with an RRSP.

Planned Giving

Many people who are very charitable during their lifetimes fail to include a mention of charitable giving after they die. This is a good time to talk about this, especially when everyone seems to be looking at their lives and how they can make other people's lives better. An enduring legacy is the best way to do that, and in exchange convert what would have been taxes into charity. Again, we use life insurance to do that.

CPP Philanthropy™

Many married Canadian seniors receive the Canada Pension Plan (CPP) and do not need that money to live on. That money just gets taxed, reinvested, and taxed again.

That taxable money can be used to fund a significant life insurance policy for the benefit of charitable causes they care about, with the option of saving money now, or later, for the benefit of your estate.

A 65-year old couple receives about $26,000 annually and can use those CPP benefits to pay the premiums on a $1.4-million joint-and-last-to-die life insurance policy naming a charity as the beneficiary that will receive the insurance payout on the death of the second spouse. Their thoughtful gift will also generate a $1.4-million charitable gift for which the estate will receive a donation receipt, saving their estate $700,000 in taxes.

Using those CPP benefits to fund the insurance policy totally mitigates the tax they now pay on their CPP benefits, replacing it with a large gift.

Hopefully some of these ideas will pique your interest in making the most of your money through insurance. But please do not try this alone – get professional help. If you aren't in synch with Canada Revenue Agency you may inadvertently be giving the tax department a piece of your hard-earned money.

If you would like a second opinion or want some help figuring out what best suits your needs, please give us a call.

Our advisors across the country are available to help you get the peace of mind that comes from knowing you have taken the steps to meticulously organize your affairs. ❑

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He guides successful business owners, who are already challenged for time, through the com plex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTH-insurance.com.
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