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ESTATEPLANNING

Stop Waiting, Start Planning Today!

No will, bad news

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Add the late Toronto philanthropist Honey Sherman, of blessed memory, who gave millions to worthy causes and Canadian Olympic figure skater Toller Cranston to the growing list of rich and famous people who died without a will, likely leaving a financial mess for survivors, and pitting siblings against each other in a costly legal battle.

In a recent court ruling, an Ontario judge ordered Cranston's twin brothers to pay $325,000 to their sister over hundreds of unfounded fraud allegations regarding expenses she incurred to value and sell various items left by their famous brother.

Cranston, a bronze medal winner and accomplished artist with no spouse or children, left an estate worth more than $6.25 million.

He is just one of many well-known people – names like Pablo Picasso, Howard Hughes, Michael Jackson, Bob Marley, Aretha Franklin and Jimi Hendrix – whose estates were left in costly disarray because they either they did not have wills or hadn't updated them.

In Franklin's case, the courts discovered multiple wills, leading to disagreements and costly court fights to determine who were the heirs and what were her final wishes.

Because she hadn't prepared correctly, 45 per cent of all the revenues her estate receives from now on go to pay off her seven-year accrued tax liability.

Jimi Hendrix died in 1970, but his estate took more than 30 years to settle because he didn't leave a will regarding the distribution of his estate.

Add to the list of 'those who should have known better' Martin Luther King, Jr., who also died without a will. His children formed a corporation to control his assets, but there have been many disagreements.

Then there's Howard Hughes -- one of the richest men in the world when he died. What was his excuse for not having one? Could it have been too expensive? Pablo Picasso had many heirs from various wives and mistresses but not a single will and those who wanted a part of his estate had to go to court to figure out who got what. (Other big names who failed to make or update their wills include Amy Winehouse, Stevie Nicks, Whitney Houston, Prince and Kurt Cobain.)

It's not only the rich and famous who fail to have a properly prepared and updated will. In 1974 my late father, of blessed memory, suffered a fatal heart attack at the age of 50, when I was 11 years old. My family suffered a major financial blow, forcing my late my mother back into the workforce at the age of 48. Dad was a busy engineer with no life insurance and no will.

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP), Master Financial Advisor - Philanthropy (MFA-P) and one of Canada's top life insurance advisors. He is CEO of WEALTHinsurance.com® and illnessPROTECTION.com®, with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and their families. He can be reached at 416-364-2929, toll-free at 866-566-2001 or mark@WEALTHinsurance.com.

I will never forget what happened to my family and that is why my professional life has been devoted to protecting clients and their families from "what happens next."

Today I help successful business owners, affluent families, professionals and others ensure their families don't fall into same unfortunate situation as any of those above.

We accomplish that with a "crash test" of your financial life, working with you to set priorities and objectives and then providing the products and services to secure the financial security you need for your business, yourself and your loved ones.

In Canada, more than $1.5 trillion in assets are expected to change hands over the next 10 years, and most businesses are wholly unprepared for succession. Add the Covid plaque to the equation and you will understand why there has never been a better time to prepare and update your own financial plans.

Here's My Plan

Your planning should include preparing for the inevitable final tax bill due after you die. The tax laws are particularly severe when it comes to people who are single, divorced or widowed because their assets (including registered funds RRSPs and RRIFs) can only be rolled over tax-free to a surviving spouse.

At death, all RRSPs and RRIFs become fully taxable. In Ontario, those in the highest tax bracket (earning more than $220,000 annually) are taxed at the rate of 53.53 percent. A $2 million RRSP shrinks to $960,000 after tax.

Calculating final tax liabilities is an important start, and often a surprise to people who are "pregnant" with large capital gains like profits on stock and real estate portfolios. As for funding those tax liabilities, using cash on hand, borrowing funds and/or liquidating assets are possibilities to pay the taxes, but is that what you really want to leave for your family to deal with?

Think Life Insurance

The least expensive way to fund those liabilities is with permanent life insurance. For couples, joint and last-to-die coverage, which costs about 40 per cent less than individual life insurance, pays out on the second to die of a husband and wife - when the taxes are due.

Read my TaxLetter® article "Life Insurance Options: Borrow, Rent or Buy" from July 2019.

And taxes quickly eat away at a large part of an estate. We recently had to tell an 80-year-old client that estate taxes would gobble up a big part of her $10-million investment portfolio, leaving her with only $6.5 million.

Your awareness of tax liabilities is important when organizing your estate plan and a will. Many people include adult children in the process – and those children often pay the life insurance premiums for their parents. Since they are ones who will inherit all the assets, the life insurance is an inexpensive way to preserve assets and keep their inheritance whole.

Life Insurance is a perfect tool to equalize inheritances to children. When a family business or cottage passes to some -- but not all siblings-- after the death of a parent, the insurance ensures that all the children receive their equitable financial share. It should be noted however that unlike a home, a family cottage is deemed an investment property and is subject to taxes.

Do you have the right insurance? Many Canadians are fortunate to be working in a company where they're enrolled in a benefits plan that may include some life insurance. Be aware that most of those benefits will evaporate if the employer terminates the plan or the employee.

Failure to plan properly can be very costly to beneficiaries. An adult child sought our insurance advice for her elderly parents, aged 90 and 85. They own commercial real estate worth about $50 million but are now too old and unhealthy to qualify for life insurance. It's a shame because there will be a $10-million tax liability that will be due when the parents pass away.

What's In Your Will?

As you update your financial strategies, be sure to update your will. In addition to the financial changes, you should make sure your will contains the names of two powers of attorney, one for your physical needs and the other for financial needs. An estimated 40 per cent of people have never discussed their estate intentions with their heirs. We understand this may be an uncomfortable task for some people, but it's better they know what steps you are taking to avoid unnecessary, costly and lengthy legal battles later on. Is your list of beneficiaries complete and up to date? Are there any new grandchildren or former spouses to deal with?

Canada is a mixed bag of provincial rules on what happens to your estate if you die without a will. Do not assume your estate will simply pass on to your surviving spouse tax free. If assets are held jointly with right of survivorship to the spouse, and there is no will, your province will decide what happens to your assets.

And of course, be sure to appoint a responsible and trustworthy executor. He or she will play a pivotal role, collect, and oversee estate assets, pay debts of the deceased, file final tax returns and distribute the balance of the estate among beneficiaries. This important function can take anywhere from months to years to finish, depending on the size and complexity of the estate.

(Further info is contained in my February 2021 TaxLetter®)

Your estate planning should include some philanthropy.

You have 3 possible beneficiaries of your estate: family, the tax department and charity, and you can choose 2. Which ones did you pick? You can donate to favourite charities using money that would otherwise go to the CRA. We create a lot of Accidental Philanthropists™ when people realize they can convert taxes to charitable gifts.

Your donations can be structured to reduce your taxes now, in the future, or both. Philanthropy should be discussed with your family, teaching them the importance of charity, and perhaps creating a family legacy that will carry your name for many years.

Of the many ways to support a favourite charity, using cash, cheque or a credit card is the least tax-efficient or cost-effective way to be charitable. Many other strategies allow you to gift beyond your actual cost. We have created a one-page document with more than 20 better ways to be generous. Please contact me for a copy.

There is no time like the present to get your planning organized. Please call us for help with your planning, or to obtain an introduction to one of our professional colleagues in the fields of accounting, law, finance, banking or investments. We have a team of advisors across the country available to provide you with a no-cost consultation.

Stay well. ❏

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 guides successful business owners, professionals, and affluent families through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy.

Mark collaborates with your professional advisory team to achieve your desired outcomes. His simple approach makes sure what is important to you gets done. He will suggest appropriate strategies to get your financial affairs meticulously organized, help you take action, and simplify the complicated so you and your family can rest easy.

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Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html

The 2021 Toolkit now includes:

- Estate Directory
- Estate Planning Checklist
- Executor Duties Checklist

Please visit our new website WEALTHinsurance.com

Watch "The New Philanthropy", my recent "Ted Talk" at Moses Znaimer's ideacity conference http://bit.ly/MarkHalpern

Mark's corporate goal is the creation of $100 million in new charity each year working with clients, generous donors of non-profits and collaborating with allied professionals.