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Your Guide to Tax-Saving Strategies

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ESTATEPLANNING

Planning in the Age of Covid

Life Insurance Can Be A Big Help

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Just a few months ago, Canada's vaccination rates lagged most developed countries. Now that we've caught up, many of us are double-vaccinated and anxious to resume normal life activities like eating in a restaurant or visiting friends and family.

Unfortunately, the latest COVID news from around the world is not reassuring. Despite our best efforts, outbreaks continue in many places and new variants are reported. Mandatory masking is making a comeback, even for the double-vaxed, and

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new shutdowns loom in many places. It's too early to predict what that means for us in the Great White North, but many experts say that living with a pandemic is likely going to be a part of our lives for decades to come.

Aside from lurking COVID dangers, who would have predicted unforeseen events like the recent deadly collapse of a condo building in Florida, or unpredictable flooding in Western Europe that killed hundreds and destroyed communities that have been around for centuries? We must adjust to living in a world with more risk and unknowns than we've grown accustomed to.

Although we can't predict the future, we all wonder what we can do now to protect our families if something bad happens. Well, after 30 years of professional practice in insurance and estate planning, I do know

the future. And I want to share it with TaxLetter® readers so you are prepared for what's coming and can plan accordingly.

What my crystal ball says. Income tax rates will rise sharply. Taxes will be payable on principle residence sales. There will be an inheritance tax and a wealth tax. And estate taxes which currently are at 25 per cent-70 per cent without proper planning, will continue to rise, leaving even less for your family.

Life Insurance: Get it now

Insurance rates are going to rise as insurance companies need to produce profits for their shareholders. Claims due to pandemics will impact profits. And with investment returns reduced, coupled with less disposable income for average tax payers, the insurance companies will have to increase premium rates. We may even get to a time where premiums are "not guaranteed" and could become variable, so the best time to lock in those rates is now.

Underwriting for life insurance will become more difficult due to the pandemic – more people won't qualify, and life insurance will become something that is only available to the youngest and healthiest Canadians.

If you put off applying for Life Insurance, you have no guarantee that you will still be insurable when you want it

most. In the past month alone, I have had two successful families that I was doing estate planning for the; suddenly parents and successor children became uninsurable. Call it bad luck, bad timing or just a fact of life. We can never take good health for granted. It's not a question of "if" It's just a matter of "when" all of the above will take place. The time to start thinking about how you will mitigate those taxes is now, while the sun is shining, while you are alive and healthy, and options are available to do the necessary planning.

Why Life Insurance?

In a world of growing uncertainty, aside from getting basic planning together like up-to-date wills, two powers of attorney and having an updated Estate Directory, there's never been a better time to review your Life Insurance. Getting Life Insurance will NEVER be this easy or less costly.

The primary purpose of Life Insurance is to provide your family with the financial certainty they need to carry on when you are no longer around. When doing estate planning around estate taxes, we often recommend joint and last-to-die insurance, which covers both spouses and is paid out after the second death. It is much less costly than single-life coverage (by up to 40 percent) and can provide relief from capital gains taxes and other expenses related to the estate for pennies on the dollar. In fact, Life Insurance is one of only four tax-free investments Canadians can still access. The other three are TFSAs, your principal residence

and –you should be so lucky – lottery winnings.

The COVID plague made it easier than ever to buy life insurance. It wasn't so long ago (pre-COVID) that people who wanted life insurance had to meet with an insurance advisor to complete an application, have a nurse come to their home to obtain blood and urine samples, and patiently await completion of the insurance underwriting process. Out of necessity, Canada's life insurance companies responded quickly to COVID by reducing underwriting requirements and streamlining the entire process. In many cases, clients can get up to \$5 million of Life Insurance (any type) with no medical underwriting, no blood or urine samples and no in-person meetings. All it takes now is a 15-minute phone call. Many clients are taking advantage of the opportunity by topping up their own coverage or getting new term and permanent policies for spouses, children, and grandchildren.

The policy beneficiaries can include a spouse and other family members, as well as a charity – which is a lot better than leaving half or more of your savings to the government in the form of taxes. Many Canadians who are single, widowed or divorced don't know that the government discriminates against them. When they die - without a spouse - they leave the government up to 53.5 percent of their RRSPs and RRIFs, and another 25 per cent on the growth of non-registered holdings. There are several ways to use Life Insurance. The main one of course is for the executor

of an estate to use the death benefit of the policy of the deceased to pay off taxes owed before distributing the remainder to family or charity.

As a tax-exempt investment you can overfund a policy (pay more than the premium required) and build up cash surrender value (CSV). For business owners, high income professionals, real estate investors and people with substantial investment portfolios, we often recommend the Immediate Financing Arrangement (IFA) strategy. It allows them to buy Life Insurance without tying up their money paying premiums, while securing their Tax and Estate Planning needs.

One such client, a 65-year-old real estate investor had built a \$50-million property portfolio he wanted to pass on to his children. Because he had done no estate, tax or insurance planning, we had to give him the bad news that his estate would face a \$10-million tax bill on his death. We suggested he use life insurance to cover those taxes so his family wouldn't be forced to sell assets to pay the tax bill. He was reluctant to use his money to buy Life Insurance but loved the idea of getting it while still having access to his premiums for other investments. The insurance policy's CSV serves as collateral to secure a loan with a Canadian chartered bank. He paid the initial premium with his own money, then used the policy cash surrender value to secure the loan to reinvest in his real estate business. He pays only the loan interest, which is tax-deductible. The loan is typically paid off at death with the life

insurance proceeds. The balance goes to family and charity, virtually tax-free. Business owners enjoy the advantage of using corporate dollars to pay the premiums on their Life Insurance. Corporations get taxed at a lower rate than an individual shareholder's personal tax rate. For example, in Ontario, the corporate tax rate applicable to active business income is about 13.5 per cent, and 50 per cent on investment income. The top individual marginal tax rate in Ontario is about 53.5 per cent.

Corporate-owned life insurance is used by wealthy business owners to accumulate passive wealth inside a company in a tax-effective way. They can also access that wealth and transfer it tax-free to surviving beneficiaries.


But life insurance goes even further. Long-time readers of the TaxLetter® know how important charitable giving is to me, helping those less fortunate and creating a legacy of community goodwill that your children and grandchildren can carry on.

For business owners particularly, life insurance can protect a family or business against the sudden loss of a key person in

the business. It can also be used to fund a shareholder buy/sell agreement so that heirs have a guaranteed buyer for their shares and a guaranteed market value with life insurance proceeds, for pennies on the dollar. Along with proper estate planning, life insurance can give you the peace of mind that comes from knowing you have looked after your family and supported a charity of your choice – all crucial during the pandemic. In every generation there seems to be one or two milestone events like war, famine, depressions, and recessions. If you plan now while you and your family are well and your business is steady, your planning ideas will work as intended.

Don't do this alone There are many ways to help reduce taxes now and in the future, but they require comprehensive estate planning and working with experienced, knowledgeable people.

Our advisors across the country are available to help you – on the phone, Skype or through Zoom.

Do not hesitate to contact us for a no-obligation consultation. 

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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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The 2021 Toolkit now includes:

- Estate Directory
- Estate Planning Checklist
- Executor Duties Checklist
- Business Owners Planning Guide

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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.