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*ESTATE*PLANNING

Five client situations

Positive outcomes achieved

Mark Halpern CFP, TEP, MFA- P (Philanthropy)

One of my greatest professional pleasures is giving people "aha" moments when they suddenly recognize an opportunity they didn't know existed. For example, I recently spoke to the board members of a hospital foundation about strategic philanthropy and tax minimization. At the very end of my presentation the exceptionally successful board chair announced, "I know a lot of stuff – but I probably only knew about 5 cent of everything that you said today."

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.

That's the rule, not the exception. Even many professionals within the financial services industry don't have a full appreciation of everything Life Insurance can accomplish. That's why I enjoy teaming up with other professional advisors to affluent families such as accountants, lawyers, family offices, and investment managers. As appropriate, I recommend integrated insurance solutions that help achieve their goals and aspirations. And I get to share plenty of "aha" moments along the way.

Below are five client situations I often encounter, situations where our specialized expertise can have a big impact.

1. People with unrealized capital gains

It's good when an asset appreciates. However, as the value of securities in a non-registered account, private equity, investment real estate or a private business enterprise rises, an increasingly heavy tax bill hovers above that asset like the sword of Damocles. When you sell the asset or die without a spouse who can receive the asset tax-free, that tax bill will come due.

In Ontario, the cost of realized capital gains is 26 per cent. Fortunately, there are ways to lighten or eliminate the tax bill. Insurance strategies to pay taxes due on death generally cost pennies on the dollar. Alternately, people can move taxable assets into a tax-exempt asset called Life Insurance. Those who are comfortable using financing strategies can even address the tax bill in a cash flow neutral way, so it has no net cost to them or their estate.

2. People with a high income

In Ontario, the highest combined federal-provincial tax rate on income is currently 53.53 per cent and it applies to income above about $220,000. For every dollar you earn above that amount, you're working just over half the time for the government instead of your family.

Canadians have embraced Tax-Free Savings Accounts (TFSAs) to let money grow tax-free. They're a great tool – but there's a limit that restricts how much you can put into a TFSA every year ($6,500 in 2023). Few people realize that they can achieve the same outcome – tax-exempt investing– using permanent participating whole Life Insurance. There's no limit on annual contributions with this type of insurance, so money grows tax-free and can be accessed tax-free.

Philanthropy is a wonderful – and extremely rewarding – way to reduce taxes due on high levels of income. Charitable receipts can mitigate up to 75 per cent of net taxable income in the year of the donation. Any amount over that 75 per cent can be carried forward for up to five years. There are also many ways to leverage Life Insurance to amplify a charitable gift today or on death.

3. People who are single, widowed or divorced

I touched on this in the first situation, but people who don't have the possibility of a tax-free rollover to a spouse are just one unfortunate incident away from a very big tax liability. There will be tax to pay on capital gains (26 per cent), and on the full amount of Registered Retirement Savings Plans (RRSPs) or Registered Retirement Income Funds (RRIFs) (potentially 53.53 per cent).

I recently met with an 80-year-old widow whose net worth was $10 million. But at her death, and without further action, that net worth would instantly shrink to $6.5 million.

We worked with her to structure her assets so she could leave $10 million to her family and make a very generous gift to charity.

Insurance made it possible to do this cost-effectively and tax-efficiently.

4. People experiencing a liquidity event

Selling a business or an investment in real estate often leads to a very significant tax bill. Planning for it is critical, ideally in advance, but strategies to mitigate tax can be implemented even after a recent transaction. A simple idea following any big payday is to consider making a big contribution to charity to offset the tax bill. What many don't know is that the donation can be recovered and returned to your family using Life Insurance.

We helped a family who sold $120 million of investment real estate and faced a $20 million tax bill. They were prepared to pay it before they were introduced to us by their accountant. Instead, we used $40 million of the $120 million and created a private foundation for the family. The $40 million charitable gift erased the $20 million tax bill.

In essence, they turned the tax into a meaningful gift to good causes. Then we structured a joint last-to-die Life Insurance policy using a financing strategy that resulted in a cash flow neutral recapture of the $40 million to be left as a bequest to the next generation. They saved all the taxes and acquired the Life Insurance without having their money tied up paying insurance premiums.

5. People executing an estate freeze

Business owners with a corporation that is expected to continue growing in value often explore the concept of an estate freeze. This strategy "freezes" the value of their shares, allowing future growth to be taxed in the next generation's hands.

To manage the immediate tax bill following an estate freeze, keep in mind that it's possible to donate private company shares "in kind" to a charity, donor-advised fund or foundation. Just as when you donate public company shares, this act of generosity can erase all taxes due on the shares' capital gains. Please contact me to receive a copy of our one pager, "Private Company Share Donation Strategy".

Long-term planning is essential, too. We advised on a $28 million estate freeze that incurred a $7 million frozen tax liability and reduced the tax bill from $7 million to $500,000 by establishing a $14 million legacy gift using Life Insurance. The icing on the cake was creating a Capital Dividend Account (CDA) credit of more than $6 million that will allow the next generation to withdraw up to that amount from the company tax-free – much better than paying the usual roughly 50 per cent tax rate.

Add a specialist to your team

In a financial world filled with complexity and change, it's more important than ever to seek out specialists with the experience to assess all available opportunities and recommend innovative, tax-saving, legacy-building strategies. If any of the five situations I've outlined sounds familiar, reach out and start putting our expertise to work for you.

Our advisors across Canada are available to help you, so please contact us to arrange your no-obligation consultation. ❑

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. Mark can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com

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