Will The Government Use My Death For A Tax Grab?

The lengths that people will go to in order to avoid drafting a sound Will is astounding and frequently counter-productive and costly. The underlying fear seems to be that the Government will tax your assets so heavily upon your death that your net Estate will be drastically dimished. I hear rumours of 50% tax gouges and other serious concerns. The reality is that with one or two exceptions your Estate will pass to your beneficiaries income tax free. I will detail the exceptions further on in this article.

The other concern is Estate Taxes or what most people refer to as Probate Fees. They do exist, yes, however Canadian Estate Taxes are probably the lowest in the industrialized World, and despite Ontario's being the the highest in Canada are still relatively nominal. How much is nominal? Well the schedule is 0.50 % on the first $ 50,000 of probatable assets and a flat 1.5% on the residue. Let's look at a typical example. An individual dies having previously lost their spouse, the Estate consists of a $350,000 residence, $100,000 in Bonds and GICs, and $50,000 in savings, this results in a cumulative value of $500,000. What Estate taxes are payable ?

$50,000	x 0.500%	= $ 250.00
$450,000	x 1.50%	= $ 6,750.00
Total due		= $ 7,000.00

Nobody likes paying taxes, however, $ 7,000 on a half million dollar Estate is not exactly drastic.

What we refer to as Probatable assets are those items that flow through an Estate and have a fixed value, property, investments, cottages, business interests, etc. Other assets allow the designation of a beneficiary, RSPs, RIFs, Insurance Policies, Charitable Annuities and Trusts, and Inter Vivos (Living Trusts). These items flow direct to the beneficiaries and are not taxed in their hands. It should be noted however that tax deferred investments such as RSPs and RIFs are taxed as income for the deceased in the year of death.

The subject of Trusts would fill another large column and are very specific to the individual settler.

The second major concern is the Income Tax liability generated by a death. As stated previously most assets will pass on to your loved ones Income Tax free. These assets would include the sale proceeds of your principal residence, cash, GICs, Money Market Funds, vehicles, furniture & fittings. The major area of tax liability comes with deferred tax investments, RSPs and RIFs etc. Upon the death of the second spouse they are classified as income in the hands of the Estate and consequently could incur almost an almost 50% tax cost. You should review your registered and non-registered savings with a professionsl in order to see if an accellerated RSP/RIF reduction programme would benefit you. The other major tax concern is capital gains, this tax is levied on the increase in value of any Capital Assets you hold, family cottage, stocks, investment properties, business real estate, equity mutual funds,etc. The latest legislation states that you must disclose as income 50% of the increase in the value of any Capital Assets. If for instance you held a $ 200,000 stock portfolio with an adjusted cost base of $100,000 you would have a $100,000 capital gain and would disclose only $ 50,000 as income.

Tax planning to reduce the impact of Income Taxes, Capital Gains Taxes, and Estate Taxes is a major issue. Sit down with a professional as soon as possible or contact Graham J. Slattery at ProContinum, Tel. 647-436-3838.