

Protect Your Estate

Most people spend a lifetime working hard to build their estate: saving money both inside and outside their RRSP's, making prudent investment decisions, owning a home and perhaps a vacation property, etc. However, what most people don't know is that the Canada Customs and Revenue Agency (CCRA) is their silent partner when it is time to distribute their estate to their children and their heirs. As they say, "the Taxman always gets his due".

CCRA's share depends on what types of assets make up the estate. At death, all property is deemed to be disposed of for tax purposes: RRSPs are fully taxable in the estate; any investments with unrealized gains are taxable; a vacation property may be partially taxable; and probate, administration, legal, and executor fees will be taken from the estate. Only in the case of property moving from one spouse to another, can it be transferred tax-free; but in most other cases (there are some exceptions) it is taxable.

If proper planning isn't done ahead of time, the impact on the estate could be devastating. The full value of a particular asset may not be realized in the event of an untimely death. For example, in a bad real estate market, if the children or heirs of an estate do not have enough cash to pay the tax, a home or a cottage may have to be sold below its true value to pay the taxes owing on its deemed disposition. Once the owners of the estate are deceased, it is too late to do any planning.

Creating or preserving an estate through life insurance is a tremendous opportunity for people to protect what they have spent their life trying to create - a valuable estate! Insurance creates a large immediate estate and provides a tax-free benefit upon death. Other advantages of insurance are potential creditor protection and avoidance of probate fees because it passes outside the estate. This means that the insurance will not be subject to probate and administration fee or legal action if the will is challenged or contested.

Preserving an estate through life insurance requires funding. The source of this funding should not be short or medium term savings you will use to buy a car, cottage, clothes, or go on a vacation; it should come from that part of your savings that you will never use in your lifetime.

Estate preservation is the ultimate long term planning strategy because its benefits are not realized until death. Building an estate takes a lifetime, but without proper planning, tearing it down may only take an instant. Insurance has played a prudent and valuable role in protecting many estates. The financial benefits that insurance offers are obvious, but the peace of mind it offers cannot be measured.

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