GOLDRING FINANCIAL LEADERSHIP INC.

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REAL ESTATE INVESTOR TAX TRAP

The income tax that is payable by your estate varies by the type of asset. In Canada, the gain on your principal residence, the proceeds from a Tax-Free Savings Accounts and Lottery Winnings are all tax free. Other types of assets are treated differently.

BY: RICK GOLDRING

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DEPARTURE TAXES (TAXES DUE ON YOUR ESTATE)

Many if not most people aren't aware of the tax impact of death. Whenever one passes away you are deemed to have sold all your assets on the day you die. In the US, there is a specific form of tax called "Estate Taxes" that most Americans are aware of. They are definitive and need to be planned for. In Canada, we do not have "Estate Taxes" but we have Taxes on the Estate and those taxes are due usually on April 30 of the year after one has passed. Not withstanding that some business owners have family trusts and other structures that may defer tax, they don't eliminate tax. In Canada, married couples can arrange their affairs in such a way that upon the first spouse to die, all assets can be transferred to the surviving spouse but upon their death, all assets are deemed to have been sold meaning taxes are due on the Estate. This is especially challenging and punitive for singles, widows and divorcees.

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In my initial meeting with a client in her early 80s, I asked the value of her assets, and she told me $10 million. I asked if that was gross or net? Her response, was what do you mean? I said, is the $10 million before tax or after tax? Her answer was, she had never thought about it. I asked her some more detailed questions and quickly determined that the approximate amount of tax due upon her death would be in the range of $3 million leaving a net estate of $7 million. She was very surprised to hear this.

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RRSPS/RRIFS/LIRAS/LIFS (REGISTERED PLANS) – 53.53%

All Registered Plans are taxable at a rate as high as 53.53%. That means more than half of these plans go to tax unless they are being transferred to a surviving spouse. When you contribute to a RRSP, the contribution is tax deductible, the growth is tax free but whenever withdrawals are made during one's lifetime or upon death, the withdrawals are all 100% taxable.

CAPITAL GAINS (REAL ESTATE AND STOCKS – 27%

When you invest in Real Estate and publicly traded securities, the Canada Revenue Agency is your silent partner. Whenever you sell any of these assets while you are alive or upon your passing, the CRA has their hand out looking for up to 27% of the capital gain created from your investment. If you invest $1,000,000 and the investment grows to $2,000,000; there is a $1,000,000 Capital Gain of which 50% is taxable and at the top tax bracket that translates to 27% tax. In this example, the taxes due are $270,000.

PRIVATE CORPORATION – UP TO 75%

Family businesses can be a great vehicle to create wealth for the benefit of future generations. Over decades of operations, private businesses can grow substantially in value, as measured by asset accumulation or the ability to generate sustainable cash flow. Many business owners assume that the majority of that value will pass to their children on the owner's passing.

Unfortunately, that growth in value typically comes with unrecognized tax liabilities within the corporate structure, which comes home to roost when the owners pass away. The Canada Revenue Agency (CRA) claims tax on investment income within the business; capital gains on the increased value of the company's shares since inception; and on the dividends needed to extract the value from the company to pay taxes!

All told, the wealth destruction from capital tax, dividend tax, and income tax to shareholders can amount to as much as 75% of the accumulated wealth in the business. Practically speaking, the tax liability hits the beneficiaries within months of the business owner's death.

With thoughtful planning, a mid course correction is possible that could result in a significant reduction or potential elimination of the amount of taxes due.

> "You must pay taxes. But there's no law that says you have to leave a tip."
>
> MORGAN STANLEY

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