

Your Estate Matters!

Common Traps and How to Avoid Them

Jamie Golombek

Managing Director, Tax & Estate Planning, CIBC Wealth Advisory Services

The term “estate” often evokes images of mansions, with acres of gardens, dozens of rooms and a pool house. The reality is that almost every adult has an estate, even if it’s not elaborate. If you own investments, real estate, vehicles, or other personal effects, then you have an estate. To allow for your estate to be passed to your loved ones in the manner you choose, you need an estate plan.

BASIC ESTATE PLANNING

Estate planning is the process of making arrangements for the management and transfer of your estate. By planning, you do the best to arrange for your estate to pass on according to your wishes, in a way that minimizes delays and costs.

A CIBC poll found that almost half of respondents had not created a will, which is the most basic element of an estate plan. Furthermore, 46% of respondents without a will thought they were too young or didn’t have enough assets to create a will. Interestingly, this included almost one-third of Boomers (aged 45 - 64) and almost 10% of seniors (age 65 and over), typically life stages when people have accumulated the most assets and are approaching a time when their wealth will transfer to the next generation. An estate plan is always recommended if you have any assets at all, and is essential if you plan to take care of any dependants, such as kids, elderly parents or others.

COMMON ESTATE PLANNING MISTAKES

Many estate planning mistakes are made through inexperience and lack of knowledge. This report will help identify two of the most common mistakes people make with their estate plans, as well as some strategies to remedy them.

Mistake #1: Letting the government write your will

If you die “intestate”, meaning without a will, your estate will be administered in accordance with provincial law. This essentially leaves crucial aspects of your estate to be dealt with based on what was decided by the government.

We’ll use an example to illustrate how one couple would fare without an estate plan. Bill and Susan are married and live in Ontario, along with their two children, Emily, age 18, and Tom, age 13. The family has not done any estate planning. They have \$1.1 million in assets, as outlined on the next page, all held in Bill’s name.

<http://www.cibc.com>

Banking
that fits
your life.



Home	\$ 600,000
Investments	<u>500,000</u>
Total	<u>\$1,100,000</u>

If Bill were to die intestate, Susan might be surprised that she would not be entitled to all of Bill's assets. Under Ontario's provincial intestacy laws, Susan would receive the first \$200,000 of Bill's estate, which is known as the "preferential share". This varies widely by province. The remaining \$900,000 would be divided one third to Susan and the balance equally among the children, Emily and Tom. This would mean Susan's maximum share of the estate would be \$500,000 (\$200,000 + 1/3 of \$900,000), which would not even be enough for Susan to obtain ownership of the family home (worth \$600,000). Emily, at the young age of 18, would receive \$300,000 outright, when she may not be prepared to responsibly manage such a sum. Tom's \$300,000 inheritance might have to be paid into court to be managed by a government office until he turns 18. Susan might also be surprised to learn that she would not automatically be named as the estate administrator, or the trustee of the Tom's funds. She would have to apply to the court for these roles, if she wanted to undertake them.

To add to the estate nightmare, taxes and probate fees could further erode the inheritances. Taxes on the investments could be as much as \$248,000 (if Bill is taxed at the highest marginal rate of 49.5% and holds RRSPs that are not rolled over to qualified beneficiaries). Probate fees, where applicable, could also amount to \$16,000 (estimated at the Ontario Estate Administration Tax rate of approximately 1.5% of the \$1.1 million estate value).

Fortunately, most of these pitfalls are easy to avoid by preparing an estate plan. For instance, in Bill's estate plan, he might have:

- named his wife Susan as the primary beneficiary in his will - by taking advantage of the spousal rollover, this would allow all

income taxes, amounting up to \$248,000, to be deferred until she disposes of the assets or dies;

- named Susan as a direct beneficiary of his RRSPs and transferred their home into joint ownership - this would have eliminated probate fees on these assets for additional savings of \$16,000;
- named Emily and Tom as contingent beneficiaries in his will - this would mean his children would inherit if his wife Susan did not survive him;
- directed the inherited assets into a trust or trusts - this might have enhanced protection and potentially reduce the taxes on subsequent income;
- added insurance to supplement his estate - this might have better provided for his family's needs.

Mistake #2: Do-it-yourself planning

The CIBC poll showed that one in ten respondents did not have a will because they thought it would be too costly. Many people attempt "do-it-yourself" estate planning for this same reason.

Family, succession and income tax laws are very complex and vary from province to province. For example, a new marriage can invalidate your will or certain bequests in some provinces. Also, if you haven't provided sufficiently in your will for certain family members or dependants (such as a spouse or common-law partner, child, or even a parent), that dependant may be able to challenge your will in court, which will be costly and delay estate administration.

To make matters more complicated, the laws frequently change. Failing to understand and plan for applicable laws can have unintended consequences. You should always obtain legal, tax and financial advice when preparing your estate plan and documents. The cost of getting proper

advice for your estate plan is most likely less than the cost of unnecessary taxes or fees if you make mistakes.

At CIBC, we offer many services and solutions to assist you with your estate planning and administration, including:

- Wealth planning to determine strategies that can maximize your estate value;
- Customized financial solutions to enhance and preserve the value of your estate;
- Administering your estate through appointment of CIBC Trust as an executor, co-executor or contingent executor;
- Trust administration through appointment of CIBC Trust as a corporate trustee; and

- Assisting existing executors and trustees with their administrative, legal and tax obligations when CIBC Trust is appointed as agent for an executor or trustee.

Contact your CIBC advisor to obtain additional information on our services.

Jamie.Golombek@cibc.com

Jamie Golombek, CPA, CA, CFP, CLU, TEP is the Managing Director, Tax & Estate Planning with CIBC Wealth Advisory Services in Toronto.

Banking
that fits
your life.



Disclaimer:

As with all planning strategies, you should seek the advice of a qualified tax advisor.

This report is published by CIBC with information that is believed to be accurate at the time of publishing. CIBC and its subsidiaries and affiliates are not liable for any errors or omissions. This report is intended to provide general information and should not be construed as specific legal, lending, or tax advice. Individual circumstances and current events are critical to sound planning; anyone wishing to act on the information in this report should consult with his or her financial advisor and tax specialist.

CIBC Cube Design & "Banking that fits your life." are trademarks of CIBC.