TAX
CHALLENGES

Income-producing investments
Earnings in the form of interest and dividends are taxed annually, thereby slowing the accumulation of capital.

Gains-producing investments*
Taxation of capital gains is deferred until a planned disposition, or involuntarily upon a deemed disposition at death.

Real estate investments*
Net rental income is taxed annually, and capital gains (other than for a principal residence) are taxed upon a planned disposition, or involuntarily upon a deemed disposition at death.

Registered retirement savings plans* +
All RRSP growth is tax-sheltered while in the plan, but is taxed as regular income if withdrawn, and any remaining balance at death is fully taxed before flowing to a beneficiary.

Registered retirement income funds* +
RRIFs are treated much the same as RRSPs, except that there is a legislated annual minimum withdrawal that will be subject to annual taxation.

** For spouses, capital assets & registered funds may be rolled over to the surviving spouse at a first death, thereby deferring tax until the second spouse's death.*

+ In certain circumstances, registered funds may be rolled over to minor children (to be realized by age of majority) or to dependent disabled adult children

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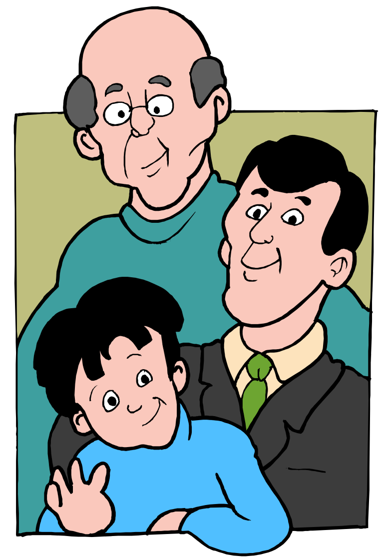
This brochure is intended to assist individuals in understanding certain concepts of wealth & estate planning ,and may contain tax and legal information specific to one or more provinces within Canada. It is not a substitute for consultation with a competent professional. Specifically, this is not a legal, tax or investment opinion on any particular planning strategy or personal fact situation. Interested readers are encouraged to contact a competent professional advisor to further assist them.

EMPIRE FINANCIAL GROUP™

Intergenerational Wealth Transfers



Using life insurance as a tax-hedge to pass more of your investment portfolio to your spouse, family and grandchildren

EMPIRE FINANCIAL GROUP™

INTERGENERATIONAL <u>WEALTH TRANSFERS</u>

Accumulating wealth
Long-term investment portfolio growth is the result of good planning. A key principle of any plan is managing risk. In turn, one of the most common and damaging risks is the potential leakage to taxes – both annually, and upon actual or involuntary deemed disposition.

Protecting wealth
As we age, and particularly as we reach our retirement years, two things become clear:
1) Our comfortable budget of money we will need through retirement, and
2) The amount of wealth we expect to pass on to our families and grandchildren.

Accordingly, we shift emphasis from 'pure accumulation' toward 'protection of capital' – first to protect our nest-egg, and secondly to preserve the value of planned inheritances.

Transferring wealth
The unfortunate reality is that if we have not adequately managed tax risk, our growth expectations may fall short, and indeed the net proceeds to our beneficiaries will be far less than what is currently showing on our financial statements.

Role of life insurance
In its *traditional* use, insurance provides a cost-effective means of <u>recovering money</u> otherwise completely lost to taxes.

Used *strategically*, insurance is one of the most effective legally-sanctioned ways for <u>accumulating money</u> tax-sheltered.

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INSURANCE <u>SOLUTIONS</u>

A non-exhaustive list of potential strategies

	 **Candidate**	 **Challenge**	 **Opportunity**	 **Strategy**
Estate Accumulator	Parent has designated an amount or source of funds to flow to one or more children	Annual tax depresses accumulation of inheritance fund	Money deposited in qualifying life insurance policies accumulates tax-sheltered	Parent owns policy on own life that pays death benefit ***<u>and</u>*** accumulation direct to child/ren
Generation-skipping Tax Shelter	Grandparent wishes to build funds for grandchild's education	Usual investment growth slowed by annual taxes, even if principal is transferred to minor today	Special rules under Income Tax Act allow tax-free policy rollover to certain family members	Low-cost policy on parent's life; give ***<u>gross</u>*** tax-sheltered value to grandchild at age of majority
Registered Maturity Multiplier	Parents name each other as RRSP/RRIF beneficiaries with child/ren as alternate/s	Tax on mandatory withdrawals and deemed disposition at second death	Insurance can be structured for a guaranteed cost and guaranteed tax-free proceeds	Net withdrawals fund policy with ***<u>guaranteed</u>*** value above expected tax-depressed alternative
Donation Refund 'n' Replenish	Wishes to donate an amount to charity, and have those same funds flow to child/ren at death	How can money that has been given away be somehow re-captured at a person's death?	A donation to charity (such as life policy) over $200 will result in tax credits at 46%+ rate	Use tax credit to fund a policy to ***<u>pay-back</u>*** original donation amount (plus growth) to child/ren at death
Diverting Tax Dollars to Charity	Widow/er has RRSP or RRIF with a child/ren as beneficiary	As much as 46%+ can be lost to taxes before flowing net-of-tax value to child/ren	The tax credit for naming a charity as RRSP/RRIF beneficiary can offset the tax due on its disposition	Child/ren receive insurance; Net effect is children and charity each get gross value, ***<u>CRA gets zero</u>***