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SEPTEMBER | 2022

At the Family Dinner Table

By Matko Pevec, Certified Financial Planner

There are many reasons why I don't find pleasure in discussing finances with family members. Don't get me wrong, they have good intentions. However, whether it's a deep-seated desire to help others or it's just them feeling exhilarated about advising others on the topic, they know very little of. It is no different than listening to some random person giving medical advice, rather than your doctor. "RRSPs are bad, I would rather buy real estate", "What do you need life insurance for?", "Pay off your mortgage first, invest later." These are just some of the "great" pieces of advice I have had pleasure to hear over the years. My attempts to change their views by putting a different perspective on things have always been futile.

Some people will find it easy to ignore the advice coming from Uncle Bob and continue with their lives, however, many are more likely to be influenced by ideas uttered from the loudest family members or friends at the Thanksgiving table. Having a holistic, customized financial plan that will highlight the benefits of the strategies and solutions we propose will help diffuse the noise coming from various centers of influence and keep our clients on the right path.

Donation, Cash vs. Shares?

By Kevin Lau, Senior Manager, Tax Services

It is often advantageous for a taxpayer to donate shares to a charitable organization. This is because capital gains are deemed to be zero when certain types of capital property are donated to qualified donees. The types of capital property include:

- A share, debt obligation or right listed on a designated stock exchange
- A share of the capital stock of a mutual fund corporation
- A unit of a mutual fund trust
- An interest in a related segregated fund trust
- A prescribed debt obligation
- Certain ecologically sensitive land

Comparing to donation after-tax cash to a charitable organization, it is more tax efficient to donate your appreciated investments. This lowers your overall tax bill and you are able to donate more "dollars" to your favourite charitable organization.

Some administration notes to keep in mind: It can be very difficult for securities to be transferred in the last week of December. Trying to do so risks the possibility that the donation receipt will be dated the following year. Someone who is interested in donating their mutual funds should keep in mind that the process can be lengthy as the recipient of the donated securities must set up an account with the particular mutual fund involved. This process may require approval from the board of directors to set up an account, so timing will also depend on how often the board meets.

The Dangers of Joint Accounts

By Paula Lester, Senior Trust Advisor

Use of joint accounts (and joint assets, such as real estate) is a popular estate planning technique to avoid probate fees. For spouses and common law partners, joint accounts generally make sense in the context of estate planning, although there may be other reasons for keeping accounts separate. However, clients who wish to make accounts joint with adult children to ease the transfer of wealth should be aware of the potential pitfalls of such a decision.

1. **Exposure to child's creditors and spouse:** Because the child now has legal title to the account, its funds may be accessible to creditors. As well, a disgruntled spouse may make claims against the funds upon a separation.

2. **Potential taxation issues:** Clients may face capital gains on the disposition of 50 per cent of their account. Half of the future income earned will accrue in the hands of the child who is often at a higher income tax bracket than their retired parent. Conversely, clients will often choose to retain full beneficial ownership and delay any disposition until death. Even this option can negate any potential for income splitting after death, where, for three years, a person's estate is entitled to its own graduated tax rate.

3. **Estate litigation:** When a parent places an asset in joint names with an adult child, there is a presumption that this asset still reverts back to the parent's estate upon the parent's death. This can cause an issue when the adult child is not the only beneficiary of the estate. There have been many cases where tens or hundreds of thousands of dollars in legal fees were spent arguing about whether the funds belong to the joint owner or to the deceased's estate. Note that if the funds belong to the estate, and assuming there is no secondary will, the funds will be included in the probate calculation.

4. **Poor intentions:** Although relatively rare, there are cases where children have taken advantage of their joint legal ownership of a parent's account to withdraw significant sums of money for their own benefit during the parent's lifetime, to the parent's detriment.

Key Person Insurance

By Greg Jizmejian, Estate Planning Advisor

Who is a key person? Is it a shareholder or an employee you just couldn't bear to lose? The reality is, it could be both. What makes them a key person is their integral role in the success of the business. An account manager that brings in 40 per cent to 50 per cent of the sales or a shareholder who has all the relationships with suppliers. They are both key people.

The risk to the business is that if they left, got disabled or died prematurely, there would be a meaningful financial consequence to the company. Insurance can play an important role in shielding the company from the financial fallout of such events. By insuring against these risks, the cash is made available at a crucial moment to help hire additional staff or offset some of the lost revenue. And for key employees, providing customized benefits can often help to build greater loyalty. A health spending account in the group plan, a private disability insurance, or some critical illness insurance. In some cases a formal retirement compensation agreement may be the trick.

A key person can be anyone who is integral to the ongoing success of the business. Paying attention to the risks the company may face without them and the need to retain such talented staff happy is at the heart of key person insurance.

Who Is FiTT?

This publication is intended to highlight current and relevant financial topics of interest to inform the Advisory community and their clients. The contributors are from four areas of expertise which combine to make up the acronym FiTT. They are Financial planning, Insurance, Tax and Trust services.

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We are pleased to announce the addition of Riaan Botha to the team. Riaan is a Senior Trust Advisor with Raymond James Trust (Canada) responsible for providing estate, incapacity, and trust planning services for Ontario-based clients. He has more than 20 years' experience in the Legal, Fiduciary (Trust and Estates), Insurance, Investment and Banking environment with a focus on tax, estate planning as well as local and offshore fiduciary advice and structuring. With a passion for estate planning, Riaan is an advocate in promoting the importance that all people should have an up-to-date will as part of a holistic estate plan.

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