

WEALTH AND TAXATION MATTERS

Strategies to Help Manage Your Wealth



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WHERE ARE YOU TODAY?



“Am I currently using the most tax-efficient strategies when managing my wealth?”

“Do I have a robust wealth transfer strategy for the heirs of my estate?”

“Can I maintain my lifestyle in retirement?”

TODAY'S AGENDA

- Strategies
 - Income Splitting
 - Tax-planned Will
 - Trusts
 - Insurance Planning
- Pulling It All Together
- Getting You There
- What You Can Expect



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INCOME SPLITTING – DEFINED

What is it?

- Process of redirecting income within a family group to take advantage of lower tax brackets, deductions and credits available to each family member

How does it work?

- Income is split by transferring income or income-earning assets from higher-income to lower-income family members

INCOME SPLITTING TECHNIQUES

- Interest free loans
- Prescribed rate loans
- Salary and dividends



INCOME SPLITTING #1 – Interest Free Loans

- To spouse or other family members
- Attribution rules apply
- Second-generation income taxed in transferee's hands
- Becomes their property
- Can build up a large pool of funds

INCOME SPLITTING #2 – Prescribed Rate Loans

- Bona fide loan between family members
- Interest charged at a prescribed rate (currently 1%)
- Income split achieved on the excess of rate of return over prescribed rate
- No attribution of net income from the split

INCOME SPLITTING #2 – Prescribed Rate Loans

- Can be made to spouse, adult children or to trusts for minor children or grandchildren
- Multiple family members can be beneficiaries of the trust
- Provides flexibility in distributing income
- An effective way to fund education costs

INCOME SPLITTING #2 – Meet John and Mary

Spousal Loan Example

- John pays federal income tax at a marginal rate of 29%
- Mary pays federal income tax at a marginal rate of 15%
- Assumed rate of return on investment portfolio of 5%

	John	Mary
Non-registered investments	\$500,000	–
Investment income	\$25,000	–
Federal tax on investment income	\$7,250	–

INCOME SPLITTING #2 – John and Mary (continued)

- John makes a spousal loan of \$500,000 to Mary at a prescribed interest rate of 1%

	John	Mary
Non-registered investments	–	\$500,000
Income on spousal loan (1%)	\$5,000	–
Investment income	–	\$25,000
Deduction of interest expense (1%)		(\$5,000)
Investment income	\$5,000	\$20,000
Federal tax on investment income	\$1,450	\$3,000

Federal tax savings of \$2,800,
calculated $\$7,250 - \$1,450 - \$3,000 = \$2,800$

INCOME SPLITTING #3 – Salary and Dividends

- Pay family members a reasonable salary
- Corporation – pay dividends on shares to low-tax-rate family members
- Flexibility – different classes of shares for different family members
- Beware the attribution rules
- Receive from \$23,445 to \$47,000 without paying tax (varies by province)

TAX-PLANNED WILL

- A current will is a must
- Multiple wills for multiple jurisdictions
- Consider probate reduction strategies:
 - Transferring assets now to family or alter ego trust
 - Multiple wills for private corporation shares
 - Multiple trusts for different types of assets



TRUSTS

- Typically property transfers will occur at fair market value → gain
- Exception: property transfers between spouses* or to special types of trusts for these individuals
- Tax on accrued gains deferred until property is sold or on death of surviving spouse or partner

* Includes common law.

INSURANCE PLANNING

Well-planned insurance strategies can:

- Provide liquid funds when needed on the death of a second spouse
- Produce enhanced yield possibilities
- Reduce/eliminate taxes due on the death tax liability on corporate estate transfers

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INSURANCE PLANNING – Personal Insured Annuity Concept

- Individual purchases a prescribed life annuity and a term 100 insurance policy
- An insured annuity provides:
 - Guaranteed income for life
 - Tax-deferred growth
 - Preservation of capital
- Results in a higher guaranteed after tax income for life compare to most traditional investments

INSURANCE PLANNING –

Corporate Insured Annuity Concept

- Used to provide a tax-advantaged income stream to shareholders
- Used to facilitate corporate estate transfer at death
- Corporation purchases:
 - Life annuity on the shareholder
 - Insurance policy on the shareholder

INSURANCE PLANNING –

Corporate Insured Annuity Concept (continued)

- On death, the tax liability relating to the shares is reduced or potentially eliminated due to the low tax cost of the annuity
- Proceeds of the insurance policy flow into the corporations capital dividend account and can be distributed tax free

PULLING IT ALL TOGETHER

What You Need to Know

- Taxation of people matters
- Taxation of the assets matters
- Taxation of income matters
- Holding period of the assets matters
- Legal ownership of the assets matters



PULLING IT ALL TOGETHER

What It Takes

- Right expertise at the right time
- Solutions delivered in an integrated manner
- Center of stability
- Simplicity through one point of contact



GETTING YOU THERE

Our Approach

- Working one-on-one with you
- Complete confidentiality
- Intimate office setting
- Conservative investment philosophy

WHAT YOU CAN EXPECT – A Team of Professionals



Key Members of Your Team

- Your Edward Jones Advisor
- Your Branch Office Administrator
- Edward Jones Home Office
- Your Legal and Tax Professionals

In addition, you can expect:

- Clarity
- Guidance and leadership
- Confidence

OUR MISSION

Your single point of contact who can provide integration of:

- Tailored planning strategies
- Sound investment guidance
- Appropriate investments and other solutions



QUESTIONS?

THANK YOU