

RBC Dominion Securities Inc.

Wills and Estate 101

An Introduction to Estate Planning

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Wealth Management
Dominion Securities

Overview

Topics Covered

- ❖ What is an Estate?
- ❖ Importance of a Will
- ❖ Power of Attorney
- ❖ Probate
- ❖ Trusts
- ❖ Taxes at Death
- ❖ Common Mistakes in Estate Planning

A bit about me before we begin



Source: [Enhanced Client Wheel](#)



What is an Estate?

Definition

All property owned by an individual at death, including personal belongings, real estate, accounts, and debts. Estate planning ensures that these assets are distributed according to your wishes.

Components

Bank Accounts: Checking, savings, and any other accounts that hold liquid assets. A key feature here is, if an account has a beneficiary nominated it avoids probate. We will talk about probate in detail later

Personal possessions : Items such as jewelery , electronics, clothing, art collection fall under this category

Digital Assets: Cryptocurrency, Social Media Accounts, Online Business Accounts, Family Pictures on the cloud and any other digital assets

Debts: Any outstanding liabilities, personal or co-signed mortgages, credit cards. The Estate must settle all debts before distributing funds to the beneficiaries

Why Estate Planning is Important ?

Reasons to Plan

Estate Planning is more than just drafting a will. It's a comprehensive process that ensures your assets are handled in a way you choose, with minimal emotional and financial stress for your loved ones

- ❖ Avoid unnecessary taxes and costs: If you think you pay too many taxes while alive, wait till you learn about taxes at death if you haven't already done so
- ❖ Ensure assets are distributed according to your wishes : Its not just about who gets what. It is about how your legacy is defined. We are all subconsciously working toward it all our life.
- ❖ Reduce burdens on family: Simplify transition process, avoid disputes
- ❖ Reward the ones you intend to the way you intend to: Fair is not always equal, equal is not always fair

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>



The Role of a Will

A legal document outlining how assets are distributed after death


Key Roles:

- Specifies beneficiaries : Don't ignore the dependents'
- Names an executor to administer the estate: Capability, Financial acumen, Availability, Reporting

Source: https://dsnet.fg.rbc.com/en/wealth-solutions/wealth_mgmt_services/resources/money_in_motion/money_in_motion___key_resources/financial-literacy-program.page?tab=1

Types of Wills

Formal Will: Typed, signed by the testator in the presence of witnesses.



Holograph Will: Handwritten, signed by the testator, no witnesses required.



Notarial Will: Specific to Quebec, created by a notary.

When to Update Your Will

Answer is : Major Life Events

- ❖ Marriage or divorce
- ❖ Birth or adoption of a child
- ❖ Moving to a different province

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

Dying Without a Will

If you die without a Will it is called as dying intestate

Consequences

If you don't have a plan then don't worry, CRA has one for you. The only problem is you may not like it

- ❖ Distribution according to provincial laws (intestate succession): Other word for it is government-controlled distribution. Hierarchy of heirs is Spouse and children, parents, siblings, distant relatives like cousins. Varies by province.
- ❖ Common-law spouses may not inherit without a Will : Legal action almost always follows. Estate settlement gets delayed. Additional Fees.
- ❖ Increased financial Burden: Loss of tax benefits (spousal RRSP/ RRIF transfers), Higher probate fees, No opportunity for tax planning
- ❖ Guardianship of Minor Children: Court decides the guardianship. Family disputes can arise. Risk of child in public system

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

What is Probate?

Definition

The process of validating a Will in court. Once authenticated the executor is authorized to manage and distribute the deceased's estate

- ❖ Assets Subject to Probate: Includes most property unless held in joint tenancy or transferred by named beneficiaries
- ❖ Why is probate necessary : It provides legal proof to financial institutions and other entities that the executor has the right to handle the deceased's affairs.
- ❖ Probate costs: Fees vary by province. In BC/ON its approx. 15000 per million, while in MB/NS/PEI its approx. 7500 per million, while in AB its capped at 525 max

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

Reducing Probate Costs

While probate fees are set by the provinces, effective planning can help reduce the overall probate costs. Some strategies that can be used are as follows

- ❖ Joint Ownership: Holding property as “Joint tenants with right of Survivorship” . Be wary of Resulting Trust rules that came into effect last year
- ❖ Beneficiary Designations for registered accounts like RRSP, TFSA, RRIF, life insurance
- ❖ Gifting Assets before death can help reduce estate value and thus by probate costs. Although proper tax planning is required
- ❖ Use of Trusts: There are various types of trusts that can be used like Family Trusts, Holding Companies, Testamentary trusts, Special Needs Trusts and so on which can be used to bypass probate and thus reduce probate costs. Let’s explore them a bit more

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

Trusts in Estate Planning

Definition

A Trust is a Legal arrangement where a trustee manages assets for a beneficiary based on terms set by the trust creator (called as settlor)

Benefits

Avoids probate. Provide ongoing financial support to beneficiaries. Protect assets from creditors

Types of Trust

- ❖ Testamentary Trust : Created by a will and activated upon the death of a person
- ❖ Living Trust (also called Inter Vivos trust): Created when the person is alive and thus allows them some degree of control over the assets while living.

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>



Testamentary Trust

Purpose

A testamentary trust, specified in a Will, allows the estate to distribute assets over time, rather than a lumpsum

Common Uses

- ❖ Minor Beneficiaries: To hold assets for minors until they reach a certain age, not necessarily adult age
- ❖ Special Needs: To provide for a beneficiary with special needs without disqualifying them from government assistance
- ❖ Tax Benefits : Income in a testamentary trust can be taxed at lower rates, allowing tax efficient asset distribution

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

Living (Inter Vivos) Trust

Purpose

Established during the individual's lifetime and managed by a trustee

Key Benefits

- ❖ Control over Distribution : Allows the creator to manage how and when assets are distributed
- ❖ Avoid Probate: Assets in a trust bypass probate, reducing probate
- ❖ Privacy: Probated assets are available in the public domain. Unlike those assets in the living trusts are not public knowledge and thus plays a crucial role in preserving confidentiality

Source: <https://dsnet.fg.rbc.com/assets/advisor/net/docs/wealthmanagementservices/file-846301.pdf>

Power of Attorney (POA)

Definition

A Power of Attorney (POA) is a legal document that grants someone the authority to make decisions on your behalf while you are alive

Types of POA

- ❖ Financial POA: Handles finances, property and legal matters
- ❖ Personal Care POA: Manages health and personal care decisions for you if you are incapacitated

Importance of POA



Protecting your Affairs: A POA ensures that someone can manage your affairs if you are unable to avoiding court involvement and ensuring continuity



Avoiding Family Disputes: Clear designation of a trusted POA reduces potential disputes amongst family members regarding financial or health care decisions



Personal control: You can specify the POA's authority, limitations and even appoint different people for financial and personal care decisions

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

Taxes at Death

Taxes is one thing , but taxes at death is a whole different ball game all together. There is a term called as deemed disposition. Which means that in the eyes of the CRA, all your assets are deemed as sold the day before you died even if they are not actually sold and thus create huge tax bills in the year of death when your executor files your final taxes on your behalf. Careful planning is needed to minimize these taxes and pass on our hard-earned assets to the next generation

Capital Gains Tax: When the assets are considered deemed disposed, the fair market value of that asset minus the cost price of that asset is called as capital gain. 67% of this capital gain is included in your income for the year and the rest 33% is tax exempt.

Eg: If you bought a Rolex watch for 100k and it was valued at 500k when you passed away, the 400k is capital gains and the resulting taxable amount is 268k. At 50% tax rate the tax on this watch would be 134k

Income Tax on Registered Accounts: We work hard to park money in our RRSP's/RRIF's during our lifetime and minimize taxes each year. Those come knocking on the door during the year of death. All registered accounts are fully taxable upon death unless rolled over to a spouse

Probate Taxes: Probate fees apply to assets passing through probate and as discussed earlier it is a % of the assets and can add up significantly

US Estate Tax: Canadian residents with assets in the US can also face US estate tax if it exceeds certain values

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

How to minimize Estate Taxes

Like we discussed earlier in how to reduce probate costs, the same principles apply here as well,

- ❖ Gifting assets before death
- ❖ Use of Trusts
- ❖ Designating a beneficiary
- ❖ Life Insurance Policy: Life insurance policy is a key asset which can help ease the burden of estate taxes and leave the entire value of the estate into the hands of the beneficiaries and sometimes even enhance it. It is also a faster process in most cases 10-12 business days from the passing of a person as against 3months to 2 years in terms of probate process. This helps in providing liquidity to the estate which is necessary to pay for debts , taxes, fees etc.

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

Common Mistakes in Estate Planning

- ❖ Not making / Updating your Will: Major life events like marriage, divorce, birth of a child, passing away of a beneficiary should prompt a will update
- ❖ Failing to plan for Taxes: I call this the “*penny wise pound foolish*” problem. Ignoring potential taxes upon death can reduce the amount passed down to the beneficiaries. Proper planning is necessary to analyze the overall impact of taxes over a person's lifetime rather than just for the current tax year
- ❖ Leaving Assets to Minors without a Trust: Without a trust, minor beneficiaries may face legal restrictions on receiving funds, and assets may be managed by a court-appointed guardian
- ❖ Not planning for incapacity
 - POA : Designating a financial and personal care POA allows for someone to manage your affairs if you are incapacitated
 - Living Will or Advanced Directive: These documents provide clear instructions on your medical care preferences if you cannot communicate
 - Reducing Family Burden: These plans help avoid family conflicts and ensure that your personal wishes are respected even when you cannot speak for yourself

Source: <https://dsnet.fg.rbc.com/assets/advisonet/docs/wealthmanagementservices/file-846301.pdf>

Summary

Key Takeaways

Estate planning is essential for everyone, regardless of financial status

A well structured plan includes a Will, POA, and strategies to reduce taxes and probate costs

Regular Updates to estate documents are essential as life circumstances are ever evolving

Next steps

Create or Update your Will and POA

Consult Professionals: Engage with legal, financial and tax professionals to ensure that all components of your estate plan are compliant with current laws and optimized to your current situation

Communicate your plan: Let your family or key individuals know where to find your estate documents and understand your general wishes to prevent misunderstanding

Source: <https://dsnet.fg.rbc.com/assets/advisornet/docs/wealthmanagementservices/file-846301.pdf>

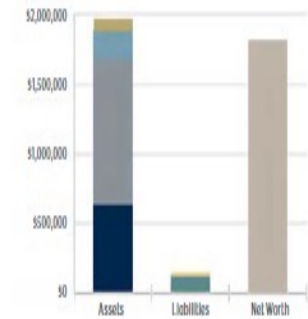
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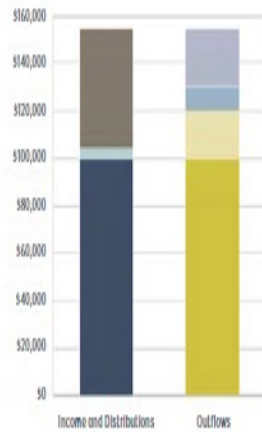
What does our report look like ?

Current Net Worth



- Personal Investable Assets
- Cash Surrender Value
- Personal Liabilities
- Corporate Investable Assets
- Corporate Other Assets
- Net Worth
- Lifestyle Assets
- Corporate Cash Surrender Value
- Corporate Liabilities

Current Cash Flow



- Employment Income
- Rental Income
- Other Income
- CPP/QPP & OAS Income
- Pension Income
- Non-Registered Distributions
- Registered Distributions
- Tax-Free Proceeds (Lifestyle Assets)
- Private Corp. Dividends
- Expenses & Donations
- Debt Payments
- Savings
- Reinvested Distributions
- Income Taxes
- Surplus
- Deficit

Projected Income and Distribution Graph



- Incomes**
 - Employment
 - Rental
 - Other
 - CPP/QPP & OAS
 - Pension
 - Private Corp. Dividend
- Distribution**
 - Registered
 - Non-Registered
 - Tax-Free Proceeds
 - Other
 - Deficit
 - Cash Outflows

Estate Impact Analysis Graph

The estate impact analysis excludes your corporate investable assets and any tax related to the deemed disposition of your corporate assets and/or shares. Contact your RBC advisor to find out how an RBC Estate Planning Specialist may assist you in your corporate estate planning needs.



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