Finance for Life™

Achieving Financial Success™

Finance for Life. Wealth for Living.™

Practical Wealth Creation Ideas

...for Simplified Financial Success™

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Advanced TAX-DEFERRAL STRATEGIES

Many Canadians utilize RRSPs/RRIFs in order to keep their investments tax sheltered as long as possible. They plan to deplete non-registered investments first to provide retirement income. RRSPs/RRIFs will eventually be taxed when taken as income in your lifetime and when you die (or your spouse dies if RRSPs/RRIFs are rolled over). Non-registered investments are subject to high taxation on both income and gains.

Once your RRSPs are maximized

There is another tax-efficient strategy for families wishing to pass wealth to their heirs. Other tax-paid assets can be transferred into a life insurance policy that allows for tax-sheltered growth. Revenue Canada permits these contracts to accumulate funds on a tax-sheltered basis, limited in relation to the amount of life insurance purchased. If left unspent, the money passes on tax-free to heirs. Unlike a RRIF, these policies have no rules governing mandatory withdrawals nor are the funds taxable in full at the time of death.

RRSPs/RRIFs are eventually fully taxable

Registered investments will be fully taxable as income on the death of the second spouse (where there are no dependent children), possibly reducing the value of an estate. Because tax-sheltered policies also involve life insurance, both the death benefit and the tax-sheltered funds are paid out tax-free. Part of this death benefit could essentially replace future income taxes due on RRSPs/RRIFs.

Pre-funding the payment of Capital Gains Tax

Future capital gains tax liabilities associated with a second residence or business can also be pre-funded using these policies. The death benefit amount could be designed to include payments to individual beneficiaries. Payments to beneficiaries can also be adjusted on a percentage basis to compensate for any unequal bequests of other assets, such as business interests. Only if money is intentionally withdrawn over certain amounts, or a policy is surrendered before death, does taxation occur.