

# 2015 ALBERTA BUDGET

## IMPACT ON TAX & ESTATE PLANNING WITH LIFE INSURANCE

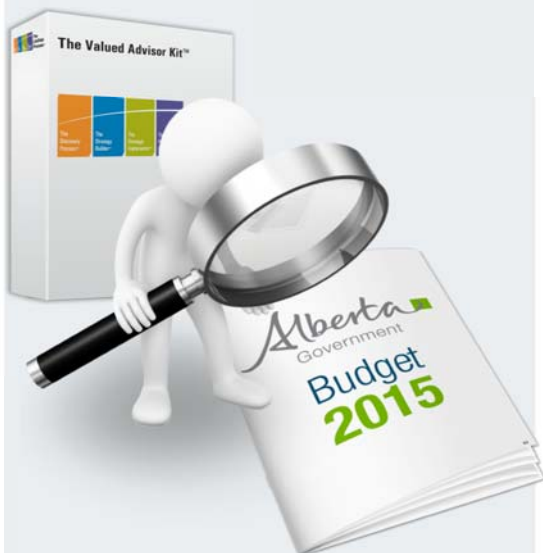
### WESTWARD'S VIEW

On March 26, Albertans woke up to the largest tax hike in a generation as the government took steps to whittle away at its \$5 billion operating deficit and ballooning debt. Dramatically declining resource sector revenues compelled the province to, among other things, target **insurance premiums, charitable donations and personal income** as areas from which additional revenue could be drawn.

Broader taxation was expected, given that Alberta has operated in a deficit nearly every year since 2008, coupled with the price of oil plummeting in recent months. But you have to look back to 1987 for the last time Alberta resorted to tax hikes of this magnitude.

This Viewpoint discusses the three tax changes of most significance to estate planning in Alberta, and Westward's process to incorporate these changes into client planning.

The opinions expressed in this memorandum are strictly those of Westward Advisors Ltd. This memorandum is for information purposes only and is not legal or tax advice.



### Insurance Premiums Tax

Effective April 1, 2016, the tax insurers pay to the Alberta government on all life insurance premiums collected **rises from 2.0% to 3.0%**. This is the first increase in Alberta in 25 years, and the government expects it to generate an additional \$165 million in 2016-17.

The impact on current policyholders will depend on the terms of the contracts. Some life insurance contracts protect the policyholder from premium tax changes, and others permit the insurer to pass on premium tax changes to the policyholder if they choose to do so.

### Charitable Donations Tax Credit

Since 2007, Albertans receive a combined federal and provincial donation tax credit of 50 cents for each dollar donated to a charity in excess of \$200. Effective for 2016, the donation tax credit drops to 41.75% for each dollar donated in excess of \$200, the rate in effect prior to 2007. The government believes the additional tax incentive rolled out in 2007 has not resulted in sufficient additional donations to justify the extra tax cost to the treasury.

Estate plans designed to make charitable gifts to eliminate the tax payable on death will now require larger gifts and result in less residual wealth for the other beneficiaries. Estate plans designed to fund such gifts on death with life insurance may find that the amount of life insurance is insufficient to eliminate the tax on death.

### Personal Tax Rates

The personal tax rate levied on the province's top earners will rise over the next three years. The current combined federal and provincial flat tax of **39.0%** will rise 1.5% on taxable income above \$100,000 a year starting in 2016, phased in at 0.5% each year over three years, reaching **40.5%** in 2018. This is expected to affect 330,000 Albertans. For roughly 44,000 of those Albertans who earn in excess of \$250,000 a year, **a temporary extra 0.5%** will be applied to taxable income over \$250,000 in 2016, 2017 and 2018.

Consequently, death tax in Alberta has increased. Estate plans designed to fund taxes on death with life insurance may find that the amount of life insurance is insufficient to cover the tax.

### The Performance Optimizer

The Performance Optimizer stage of The LifeStep Process is designed to address evolving circumstances, such as when a corporate reorganization occurs, a business is sold, or the tax environment changes. Our Performance Optimizer team will factor in these Budget changes for our Alberta clients. If we identify a material impact on the ability of a plan to fulfill its objectives, we will weigh the options and recommend the most beneficial plan adjustments.