VIEWPOINT 2024 JUNE 07

Federal Budget 2024: Time For An Estate Liquidity Review?

WESTWARD ADVISORS

WESTWARD'S VIEWPOINT

Plenty has been written about the recent federal budget's increase in the capital gains inclusion rate from one half to two thirds.

Those following these news articles are well aware that retirement planning for doctors (and dentists, and accountants, and lawyers, etc) just took a tax hit, that the tax cost of transferring the family cottage to the next generation is now a lot more expensive, and that the after-tax value of vacation properties and rental properties is not nearly what it was.

What has not received much press yet is the substantially increased tax cost of dying.

Estate plans must be reviewed to **ensure there is liquidity for a 33% increase in estate tax** on the deemed disposition of capital property such as shares of private corporations.

Thanks to explicit tax advantages in the *Income Tax Act*, life insurance provides estate liquidity very tax efficiently. It is especially effective when planning to avoid forcing the estate to sell assets to fund estate tax.

Life insurance can be very cost effective when purchased by individuals well into their 70's.

Unfortunately, there is no volume discount for life insurance. Quite the opposite. Large amounts of life insurance on a single individual raises insurer risk and can trigger surcharge pricing.

Westward specializes in acquiring large amounts of permanent life insurance coverage at the lowest possible price in the marketplace through our advanced underwriting processes and unique relationships with insurers and reinsurers.

Please contact us for assistance with reviewing estate liquidity needs and tax efficient estate liquidity solutions.

The Discovery Process™ The Strategy Builder™ The Strategic Implementor™ The Performance Optimizer™ The LifeStep Process®

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POINT: ESTATE TAX STABILITY

Let's begin with what the budget does not change regarding estate tax planning:

1. No changes to personal or corporate tax rates.
2. No changes to the taxation of dividends.
3. No changes to the taxation of private corporations other than capital gains.
4. No changes to the taxation of life insurance.

COUNTERPOINT: ESTATE TAX UPHEAVAL

The increase in the taxable portion of capital gains from one half to two thirds will apply to capital gains arising on the deemed disposition of capital property on death. Consequently, the related **tax jumps 33% after June 25, 2024.**

For individuals, the increase applies to capital gains in excess of $250,000 in the year of death. Estate planning trusts holding capital property such as **alter ego trusts, joint partner trusts and spousal trusts are not entitled to the $250,000 allowance.**

Estate plans relying on the sale of corporate assets to help fund a shareholder's estate tax are now a lot less efficient due to:

1. **33% more corporate tax** on the sale of corporate assets, and
2. **33% less capital dividend account (CDA)** from the sale of corporate assets to pay sale proceeds as tax-free dividends to fund the estate tax.

Corporate owned life insurance delivers:

1. **a tax free death benefit** to the corporate beneficiary, and
2. **a CDA credit** to the corporate beneficiary for the amount of the death benefit in excess of the policy's adjusted cost basis.

These estate tax planning tools are not only preserved but are **now even more valuable** given the increased scarcity of CDA from corporate capital gains.

The legislation for these budget announcements has not yet been released. When released and implemented, estate plans will need to be reviewed to ensure sufficient liquidity for estate taxes.

