Connect

Fall 2017

"Do TODAY what others won't, so you can do TOMORROW what others cannot"

I was meeting with a new client who shared this statement. Her dad used it to encourage her. Today, she runs a successful business and is living her dreams. How did she do this? She confirmed it comes down to living a balanced lifestyle.

Work hard, play hard, manage your stress, eat right, sleep well, love deeply, forgive transgressions, reduce waste, live with less, and give away what you don't need.

There are seven key areas in your life to help you stay in balance - Family, Financial, Education, Health, Fitness, Relationships and Spirituality. Make the time to spend with your family; the clock is ticking and you never know how much longer you can say "I love you" to those who matter most.

Keep your financial house in order; interest rates are on the rise and personal debt is at an all-time high so managing your cashflow is of significant importance. Keep your brain engaged. Try brushing your teeth with the opposite hand.

Doug Buss, CFP, CLU, CP CA

Make fitness a priority. Challenge your body with a new exercise routine or take a yoga or block therapy class. Mend relationships that have caused you pain in the past. Forgive!! Just let it go... Be grateful for everything you have as it was provided to you so you could be a blessing to others. Until next time...

"People are like wine – some turn to vinegar, but the best improve with age."

– *Pope John XXIII*

What's important to you?

Did you Know?

40% of Canadians report not having an estimation of their retirement expenses.

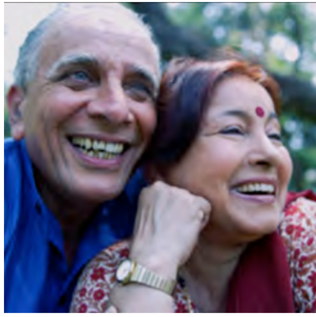
77% said they will rely on family members more than government programs to help them cover their retirement costs. Specifically, **60%** will be counting on a spouse's or partner's retirement savings and **39%** will turn to children for financial and housing assistance, if necessary.

Many Canadians are also relying on elder family members to support their retirement through a received inheritance. In fact, **50%** of survey participants believe an inheritance is an important part of retirement income and **45%** report an expectation to receive one.

Although **81%** of Canadians have every intention of passing on an inheritance, only **43%** have actually begun to write a will, posing potential legal and tax consequences for their families and heirs.

What is a spousal RRSP?

Here are key facts about this tax-saving tool.



What is a spousal RRSP?

- A spousal RRSP is an RRSP that is opened by your spouse, but you contribute to it
- Your contributions are based on your contribution limit and you claim the tax deduction
- Your spouse is the legal owner of the plan and makes all investment decisions and withdrawals
- A spousal RRSP provides an opportunity for income splitting at any age (subject to certain tax rules called attribution rules), and you choose the amount to split by deciding how much to contribute.

Note that your "spouse" can be either your common-law or married partner.

How spousal RRSPs can help you split income

With spousal RRSPs, you can split income any time, as long as the attribution rules don't apply.

Note that using a spousal RRSP is different from pension income splitting, which can only happen from a RRIF after age 65. Under pension income splitting, you can allocate up to 50% of your eligible pension income to your spouse or common-law partner.

What are the spousal RRSP attribution rules?

If funds are withdrawn from a spousal RRSP within three years of you making a spousal contribution, all or part of the withdrawn amount will be taxed as your income, not your spouse's.

Ideal candidates

Income splitting through the use of a spousal RRSP is best suited for those:

- ***who have a spouse in a lower marginal tax bracket; and***
- ***who want the flexibility to income split using the spousal RRSP at any age (subject to the attribution rules) and the ability to decide how much to split.***

Because the attribution rules use calendar years, it is usually best to make spousal contributions within the calendar year, instead of during the first 60 days of the following year. For example, if a spousal contribution is made in February 2017 for the 2016 tax year, the income attribution will cease to apply on January 1, 2020 (provided no further spousal contributions are made). However, if the contribution had been made before December 31, 2016, the attribution would cease to apply on January 1, 2019.

How does income splitting save me tax?

Spousal RRSPs save you tax if your spouse is in a lower tax bracket than you and he or she takes income from the plan. The following table helps illustrate how income splitting with a spousal RRSP can work. In this example, a couple withdrawing the same amount of income is able to save $2,400 annually by using this strategy.

	Individual RRSP 40% Tax Rate ($)	Spousal RRSP 20% Tax Rate ($)
RRSP Income/Withdrawal	12,000	12,000
Taxes Payable	4,800	2,400
After-Tax Income	7,200	9,600
Tax Savings (Annually)		**2,400**

For illustration purposes only

As mentioned, pension income splitting rules only allow you to split up to 50% of your RRIF income (if you are 65 or older) with your spouse. With spousal RRSPs, you determine the amount of income to split by deciding how much to contribute to the spousal RRSP.

What happens if my spouse is younger than me?

If you have a younger spouse, you can continue to contribute to their spousal RRSP until the end of the year your spouse turns 71, provided that you still have RRSP contribution room available. Also, with a younger spouse, the income from those RRSP contributions can be delayed until the year after your spouse's 71st birthday.

What happens if I have unused contribution room when I die?

In the year of your death, or within 60 days after the year-end, your legal representative may make a contribution to your spouse's RRSP under the normal rules. This contribution will be deductible on your final tax return.

What else do I need to know?

It is important to understand that a spousal contribution becomes the property of your spouse, which could have implications if you divorce. (With pension income splitting, no assets are transferred.)

Also, keep in mind that any funds withdrawn from a spousal RRSP cannot be re-contributed later without using future available contribution room. In this instance, a TFSA may be a better option as withdrawals are added back to the unused contribution room in the following calendar year.

As published in Advisor.ca January 17, 2017

How Life Insurance is Taxed

In 2016, 22 million Canadians owned $4.3 trillion in life insurance coverage, reveals the Canadian Life and Health Insurance Association. But owning coverage isn't the same as being properly insured.

Here's what you need to know.

Permanent Insurance and Tax

From a tax perspective, life insurance is neither capital property nor debt instrument. It's governed by a special set of rules in the Income Tax Act and accompanying regulations.

First, life insurance premiums, whether paid personally or by a corporation, are typically non-deductible, resulting in premiums being funded with after-tax dollars. On the other hand, life insurance death benefits are tax-free.

Permanent insurance, which provides lifetime coverage as long as premiums are paid, initially has higher premiums than term insurance. That's because premiums not only cover the current mortality and other costs under the policy, but also fund a reserve to help pay future premiums. This policy reserve is invested by the insurance company, and, assuming the policy qualifies as an exempt policy, the reserve's earnings accumulate on a tax-deferred basis, and can be used to offset future policy premiums and mortality costs as the client grows older.

Regulations set out rules for determining if a policy is exempt. Almost all permanent policies in Canada are exempt policies, and the insurance company is responsible for ensuring the policy complies with the rules. For example, there's an upper limit on how much can be accumulated in the policy reserve, which in turn affects the permitted maximum annual premium.

It's important to note the exempt test rules have been modified for insurance policies issued in 2017 or later years (as well as to policies issued before 2017 if certain changes are made). These changes generally put further restrictions on how much can be accumulated within an exempt policy. Despite these changes, the policy reserve can still grow significantly over time.

The tax-deferred reserve benefits the policyholder in several ways. First, as already mentioned, over time the reserve may be used to subsidize some or all future premiums and mortality costs. In this way, pre-tax dollars help pay for the policy. And for some policies, the cash surrender value (CSV) of the policy reserve at death can be added to the original insurance benefit, enhancing the tax-free death benefit.

As well, depending on the type of policy, the CSV of the policy reserve represents an asset of the policyholder. It may be withdrawn from the policy or borrowed against as a policy loan under the policy or as a secured loan from a financial institution.

However, if a policyholder attempts to access the CSV of the policy before death, there may be adverse tax consequences. For example, if a policy is surrendered, any CSV in excess of the policy's adjusted cost basis (ACB) is taxable to the policyholder, and the gain is taxed like interest income (100% income inclusion) rather than a capital gain (50% income inclusion).

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Exercise To Slow Aging

You may be able to help slow your aging process, but it will take some effort.

New research from Brigham Young University has found that the more active you are, the longer your telomeres remain. These regions of repeating DNA sequences at the ends of chromosomes have been likened to the caps on the ends of shoelaces that prevent the laces from unraveling. Telomeres shorten every time a cell replicates, so the older we get, the shorter our telomeres become. The new study shows that very active adults have telomeres with a biological aging advantage of nine years over adults who are sedentary and a 7.1-year advantage over those who are moderately active. Researcher Larry Tucker, a professor of exercise science, said that for women "highly active" translates to 30 minutes of jogging (for men, 40 minutes) five days a week. Dr. Tucker analyzed data on telomere length and physical activity from 5,823 adult participants in a National Health and Nutrition Examination Survey. It's not known how physical activity affects telomeres, but Dr. Tucker said it might be linked to inflammation and oxidative stress, both of which can be suppressed over time through exercise.

Losing a Loved One

Losing a loved one is one of life's most painful events. Financial matters might be among the last things you want to think about but there are decisions you will need to face at this difficult time.

It will make things easier if you and your loved ones have conversations when all is well. You will need to know where to find relevant documents, such as wills and statements of assets and liabilities, when the time comes. Find out whether your loved one has a lawyer or accountant and who your loved one has chosen as executor(s).

There are many steps that you, or the executor(s), will need to take to deal with the estate of your loved one.

Before starting, it might be wise for you to consult with your lawyer to ensure you are aware of any important legal considerations. For example, in some cases, it makes sense to bring the will to a court if all or part of it needs to go through "probate", in other words, for the court to confirm that it is valid. This can be an expensive process so executors avoid probate if possible.

Here are some key steps that the executor will need to complete to deal with financial issues related to the estate:

- Obtain multiple certified death certificates from the funeral home. You will need to submit original certified certificates as proof of death in order to complete many of the steps listed below.
- Apply for benefits (such as a death benefit, children's benefits, and a survivor's pension) under as the Canada Pension Plan (CPP).
- Contact the beneficiary or beneficiaries that are named in the will to let them know about the death and to arrange for them to receive their share of the estate once financial matters have been settled.
- Ensure that your loved one's debts have been paid.
- Apply for life insurance benefits – through a direct life insurance policy or through current or past employers, credit cards, alumni associations or any other organizations that the person belonged to.
- Contact bank(s) and other institutions where your loved one held accounts to make appropriate arrangements. Examples of accounts that might need to be closed are RRSPs, savings and chequing accounts, and other investment accounts. You should set up an estate bank account for transactions regarding the estate.

- Check whether the person has pension benefits with a current or past employer to find out if the estate is eligible for a death benefit or to the commuted value of the pension.
- Cancel or transfer credit cards, auto insurance coverage, and so forth.
- At the end of the process, a final income tax return must be filed for your loved one. Consult with a tax professional to prepare this return.

Find out more about what to expect as an estate representative on the Government of Canada website.

If you receive money through the estate, revisit your financial situation when you are ready and make any needed adjustments to your financial planning and investments.

Remember to review your own will and power of attorney for property arrangements on an ongoing basis.

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