

# LEAVE A LEGACY

## INCOME TAXES

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# Summary

- Deemed disposition at death
- Taxation of different types of assets
- Tax benefits of charitable donations
- Tax filings on death
- Tax legacies to avoid
- Clearance certificate

# Deemed Disposition At Death

- Deemed disposition of all assets at Fair Market Value (FMV)
- Taxed on growth in assets which have not yet been taxed not on total value like the United States
- Exception – rollover to spouse/eligible dependent

# ASSETS NOT TAXED

Asset	Fair Market Value
Cash deposits	\$ 100,000
Principal Residence	500,000
Life insurance proceeds	<u>300,000</u>
Total	\$ <u>900,000</u>

# REGISTERED ASSETS

RRSP/RRIF	
Fair market value at death	\$ 350,000
Income taxes	<u>(140,000)</u>
Net - after taxes	\$ <u>210,000</u>

# CAPITAL GAIN ON REAL ESTATE

<b>Cabin</b>	
Appraised value	\$ 500,000
Original cost	<u>(200,000)</u>
Accrued gain	300,000
Taxable gain	150,000
Income taxes	(60,000)

# PRINCIPAL RESIDENCE “PR” DESIGNATION

Calgary House	
FMV in 2016	\$ 500,000
Cost in 1990	<u>(200,000)</u>
Accrued gain	300,000
PR Designation	1990 to 2000
Taxable gain	\$ 86,000
Income taxes	\$ 33,500

BC Cabin	
FMV in 2016	\$ 500,000
Built in 2000	<u>(200,000)</u>
Accrued gain	300,000
PR Designation	2001 to 16
Taxable gain	nil

# NON-REG INVESTMENTS

Telus Shares	
FMV in 2016	\$ 200,000
Original Cost	<u>( 50,000)</u>
Accrued Gain	150,000
Income Taxes	<u>( 30,000)</u>
Net Value	\$ 170,000

Penn West	
FMV in 2016	\$ 50,000
Original Cost	<u>(500,000)</u>
Accrued Loss	(450,000)
Tax Savings	90,000
Net Value	\$ 140,000

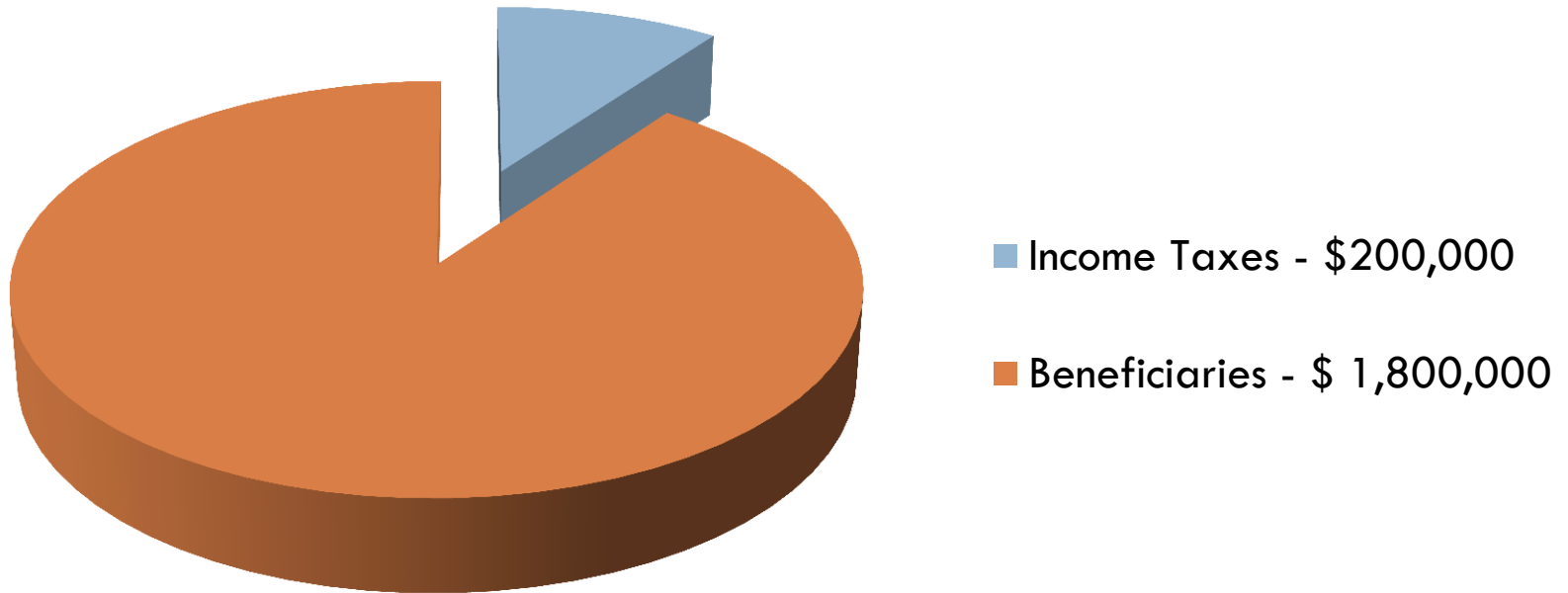


# Charitable Donations

- ❑ Tax credit on Final T1 return
- ❑ Must be specified in the Will
- ❑ Super credit of 50% in Alberta (after \$200)
- ❑ Donate assets with taxable growth to enhance tax savings
- ❑ Excess can be carried back one year

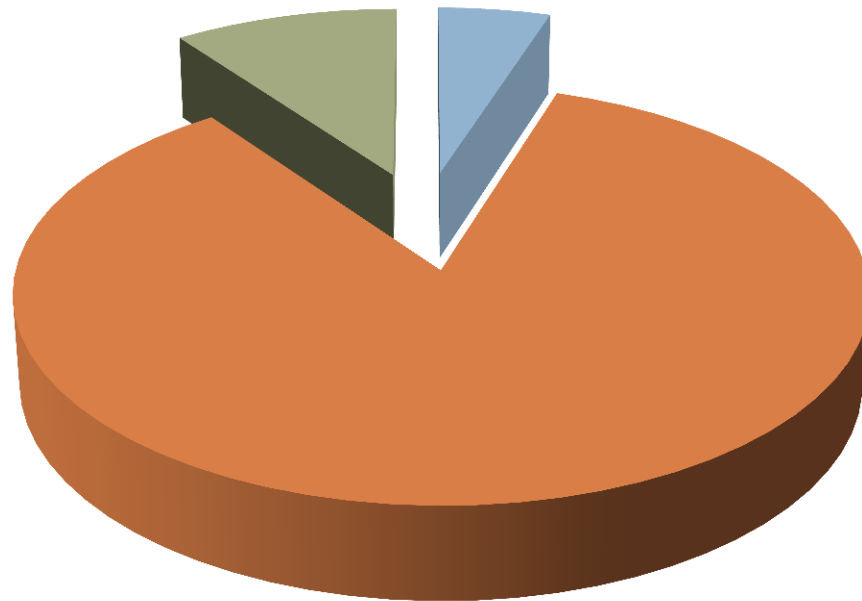
# Estate Assets

## No Giving - \$2 million Estate



# Estate Assets

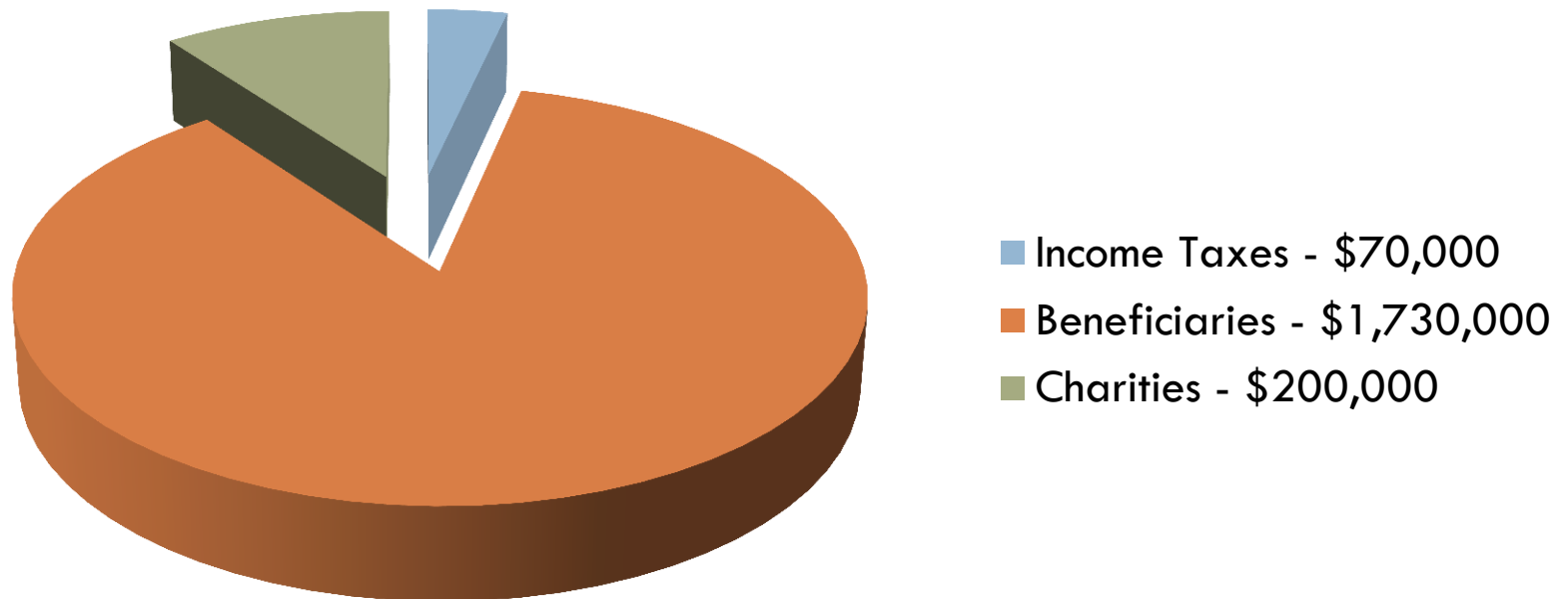
**Giving \$200,000 cash - \$2 million Estate**



- Income Taxes - \$100,000
- Beneficiaries - \$1,700,000
- Charities - \$200,000

# Estate Assets

**Giving \$200,000 Telus shares - \$2 million Estate**



# Sharing Your Estate



# Tax Filings on Death

- Final T1 return (terminal return) - due the later of April 30<sup>th</sup> or 6 months from death
- Special rules – medical expenses, capital losses
- Refunds for up to 10 years under fairness provisions
- Optional returns can result in tax savings - i.e. Rights and Things return
- T3 Trust and information return - due within 90 days of trust year end
- T4 return due in February - executor fees are considered employment income

# Tax Legacies to Avoid

- Income taxes not filed – penalties and loss of certain elections (Pension splitting)
- Corporations – double tax
- Designated beneficiaries on registered assets
- Tax Documentation not available
- Executor not responsible – agency agreement

# Clearance Certificate

- Provides protection to personal representative from any tax liability (except fraud, etc.)
- Application after all tax returns assessed
- Currently taking 6 months