

Topic 2

TRANSFERRING YOUR WEALTH



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Would you like to learn more about the ins and outs of asset transfer?
Read: **The Asset Transfer Strategy**

What's to talk about?

A. **Who can provide guidance and expertise around how to transfer significant assets? Have you already sought advice for transferring your wealth?**

As you plan your will, you may need to plan the transfer of large amounts of wealth. There are several options to consider, like gifts, trusts or inheritances. If you have a complex estate, you may need an advice team that includes a financial advisor, tax specialist and lawyer.

Here's how to start a conversation around the kind of advice you may need or have already received.

If you are a parent with adult children:

- To build your advice team, ask your family members if they have used any advisors and how they chose them. You may not want to use the same professionals, but it can help you figure out where to start your search. Be sure to include your spouse or legal partner in the discussion if you have one.
- If you already have an advice team, you may want to share their contact information with your child(ren). Or, let them know where to find this information when it's time to settle your estate.



- If possible, set up a meeting for your advisor(s) to share your plans to transfer your wealth. This includes your spouse/legal partner if you have one and your child(ren). If you can, pick a time when everyone's relaxed. Avoid a time when anyone is going through a stressful life event.
- If you haven't already started, also think about how to educate your child(ren) to inherit and take over your wealth. This can include talking about financial planning, budgeting, tax planning and more.

If you are an adult child:

- It may not be easy to get your parent(s) to open up about their financial plans or about getting advice. Talking about your own situation can help. If you've already have sought advice, share with your parents why and how you found an advisor/tax specialist/lawyer you trust.
- Another way to start a conversation about wealth transfer is to share a recent news story about someone who did not get proper advice or whose estate is in dispute. You can then ask your parents if they have sought professional advice and why it matters.
- If your parent(s) have an advisor, you can suggest meeting together to talk about their estate plans. Some parents will be more open to this than others.

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B. **What is the best way to pass along various assets from a tax perspective?**

You can transfer assets to your spouse or legal partner tax free. But for other inheritors, the tax rules vary for different assets – including retirement savings plans, pensions, non-registered accounts and property. It can take careful planning to minimize the taxes due on your estate. You may want to involve your adult child(ren). Here's how to start the conversation.

If you are a parent with adult children:

- Before you talk to your child(ren), consult a tax specialist for advice on planning for the taxes on your estate. You can then ask this professional to lead a conversation with your child(ren) on this subject.
- If your plans will affect your child(ren), be sure to consult them on their wishes. For example, the transfer of a family cottage to your child(ren) may trigger a capital gains tax that must be paid before the children (or other heirs) can enjoy the property. Be sure to find out how your child(ren) feel about inheriting the cottage. Have a plan to pay the tax and share this plan with your child(ren).



- For your registered or non-registered investment and savings accounts, check that you have named a beneficiary. The person you name will receive the asset directly; it doesn't go into your estate first, where it could trigger probate fees. Make sure you understand the tax consequences in each case. You may want to let each beneficiary know your plans.
- Are you considering leaving money to a charity? This can help reduce the taxes due on your estate. Be sure to explain your approach to your child(ren), so they will understand your intentions.
- Are you considering setting up a trust for either your child(ren) or grandchild(ren)? What type of trust will help you minimize taxes? You may want to discuss the details with the recipient so they will understand your thinking. There can be many emotions involved when it comes to trusts, so avoid surprises. If you're not sure where to start, your advice team can coach you through the process.
- Do you have a business to pass on to your spouse/legal partner or child(ren)? Planning can help you reduce the taxes. Once you have a plan, ask your advice team to meet with your family member(s) to discuss the details.

If you are an adult child:

- Recognize that not all parents want to take the steps available to them to reduce the taxes on their estate. Also, not all parents want to increase their own taxes to save taxes on your inheritance.
- If you're looking for a way to open a conversation about taxes on the estate of your parent(s), start by sharing your own plans. For example, you may mention something you've learned about naming beneficiaries on your investment accounts and how it affects the taxes due.
- If you are concerned your parent(s) has/have not planned for taxes on their estate, you might say something like "I've heard many estates pay too many taxes and probate costs; I just want to make sure you aren't one of them. Can I ask you some questions about your plans?"

- If your parent(s) has/have a plan to reduce taxes on their estate, you could ask if they would be comfortable holding a meeting with you and their advice team to review the parts of the plan that would affect you most.

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C. **When is the best time to pass along assets?**

A living inheritance is where you give money or other assets to your child(ren) or grandchild(ren) in your lifetime, instead of passing your wealth on solely through a will. There can be some advantages, like getting to see your family members enjoy the benefits. They may appreciate the help earlier in life when they may have greater financial need. There may even be savings on taxes and fees. Here's how to start a conversation about these decisions.

If you are a parent with adult children:

- Get expert legal and tax advice before you talk to your child(ren). You need to balance passing on your wealth with making sure you have enough money for your retirement. Your retirement years could be one of the longest phases of your life.
- If you decide it's a good idea to give an early inheritance, talk it over with your child(ren) or grand(children) before you take any final steps. Find out what they think and whether it's right for them.
- Remember that gifts can be non-monetary as well. If you gift family heirlooms, jewelry, mementos or artwork early, you'll know your wishes have been fulfilled. Alternatively, some people gift artwork to galleries or museums for everyone to enjoy.

If you are an adult child:

- It can be awkward talking with your parent(s) about the timing of an inheritance. If you are in financial need, you could ask if they would consider a loan or advance to help you out. Recognize that an inheritance – including an early one -- is not a legal right.
- Be sensitive to your parent's(s') feelings. If you have siblings, remember that your parent(s) must consider what's fair to them as well. Step back from the conversation if it is uncomfortable.

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D. Have you considered taxes in dividing your wealth among your children?

Some assets, like a family cottage, may trigger taxes when you transfer them to your child(ren). Other assets, like cash, your principal residence or life insurance, could be passed along tax-free. If your goal is to divide your wealth equally among your children, be sure to factor in the taxes due on each asset.

Here's how to start a conversation about taxes and how they'll affect your child(ren)'s inheritance(s).

If you are a parent with adult children:

- First, talk to your advice team – including a tax specialist – to understand how taxes will affect the assets you plan to leave to your child(ren). Be sure to ask about options to reduce the taxes and fees due on your estate – and whether it means higher taxes for you.
- If you are planning to take steps to balance the tax burden among your children, consider letting them know your intentions. It could be something you share with each child separately, or you could hold a family meeting – whichever is most comfortable for you.
- If you are thinking about setting up a joint account with an adult child, make sure you understand the benefits and risks of these accounts. You also need to understand who will pay taxes on interest received.
- If you plan to use a trust to pass on an inheritance, make sure your child(ren) knows/know what a trust is, how it works and/or why it is used. Again, you can ask your advice team to meet with the family to discuss.



If you are an adult child:

- You can wait for the topic to come up. Or, find a way to ease into the conversation. You could mention an article you read or bring up the fact that you recently chatted with your financial advisor about estate planning. Or, you can use a life event — a job loss, a milestone birthday or someone's divorce – to start the conversation.
- If your parent(s) share details of their estate with you, listen carefully and ask questions about what taxes may apply.
- To get more clarification, ask your parents if they could set up a time where you could meet and discuss with their advice team.

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E. Can assets be “gifted,” so the family member receiving them doesn’t have to pay taxes on them?

There is no gift tax in Canada. Personal items like cash, jewelry, artwork and family heirlooms can all be passed on as gifts tax-free. Here’s how to start the conversation about gifting assets to reduce the taxes due.

If you are a parent with adult children:

- If you’d like to offer a large cash gift to your adult child(ren) before you pass on, get advice first from your financial planner or tax specialist. Then talk to your child(ren) about what gift(s) you want to give and why. Find out how they feel about the gift or if they have other wishes.
- If you want to gift personal items, such as jewelry, artwork or family heirlooms, remember that your child(ren) may or may not have emotional ties to these items. If you have more than one child, one may feel hurt if you offer an item to a sibling. Sometimes the fairest way to proceed is to have your children draw lots and take turns picking items. You could also change the order of the draw each time.
- You can also ask your children to put coloured stickers on any personal items they might like to have one day. If there’s more than one sticker on any item, you can have them draw lots.
- You can also consider leaving personal items to your child(ren) in your will. You can discuss your thoughts with your child(ren) and then decide how you want to proceed. Consider having more valuable items appraised to make it easier to divide them more equally among your children.
- Make sure everyone in the family knows who gets what, so there are no misunderstandings. If you plan to give something as a gift, put it in writing.

If you are an adult child:

- In general, it's best to wait for your parents to bring up the conversation about gifts.
- If you're really close to your parent(s), you may say something like, "If nobody else wants it, or you really don't know what you want to do with the family piano, then I'd love to have it."
- If your parent(s) want to gift something to you that you don't really want, think carefully before you say, 'no thanks.' Is it worth hurting their feelings over? If it won't upset others, you could gift it later to someone who will appreciate it more. Or, you could exchange gifts with a sibling.
- If your parents want to gift property to you, keep in mind that capital gains tax may apply unless it becomes your principal residence.

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F. **Can you pay any taxes due on behalf of your children by transferring assets to them early?**

If you transfer certain assets to your child(ren) before your death, you can trigger the taxes that would otherwise be paid by your estate. Keep in mind two things:

1. The asset must be transferred at a reasonable value.
2. You must pay taxes due on any accrued gains at the time of the transfer – even if you gift the asset to your child(ren).

The question is, even if they want the asset, can they afford it? Who pays the tax bill? Here's how to start the conversation.

If you are a parent with adult children:

- Ask your child(ren) if they are interested in taking on a family property, business or other asset at this time. Just because you love the cottage doesn't mean your kids do. Will they enjoy spending time there? Can they afford the ongoing upkeep and property taxes?
- If you have an asset or property you'd like to share with more than one child, ask each one how they feel about this arrangement. Are they confident expenses and upkeep will be shared? What will happen if someone wants to sell their interest in the asset? Can the other child(ren) afford to buy them out?
- If your child(ren) is/are interested in taking ownership of an asset, set up a meeting with your advice team so you can get professional advice. There may be other options you can explore, like joint ownership or a trust.

If you are an adult child:

- Many families put off talking about what will happen to the family cottage or business. But it's better to set up a family meeting and put everything on the table as early as possible.
- If your parents want to transfer property to you, keep in mind that if you want to sell it later, capital gains tax may apply unless it becomes your principal residence.
- You may want to seek financial advice about what will be involved if you are going to receive a particular asset from your parent(s). The advisor can help you uncover questions you need to ask and give you suggestions on how to start the conversation.
- Be honest with your parent(s) about your financial situation and whether you can take on an asset they are offering to you. Sometimes a better route is to sell the asset and have each child share in the cash raised.

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Let's Talk Money: Seniors Conversation Starters

Transferring Your Wealth

Questions for you as an Older Adult

- Have you used a Certified Financial Planner? What were the key characteristics that guided you in your choice of professional to help you? If I was to look for a new Financial Advisor to help me with some changes that I am contemplating do you have someone that you could recommend?
- Have you ever met or done business with my wealth management advisor (lawyer, insurance agent, accountant)? I currently use (insert the list of your professional contacts). Are you familiar with any of them? I am getting concerned about the age of some of my contacts – and the fact that many of them are considering retiring and I may need to find some replacements. Who do you use?
- Given all that has been going on in the world today I think that it might be useful to have you meet my Certified Financial Planner so that I can share some of what I have done in terms of my plans for after I am gone. Can you give me a couple of times and dates over the next month that we could have a conversation – maybe virtually if you are not free for an in-person conversation.
- With tax season coming up I have begun to prepare all of my documentation that I need for this year's return. I was surprised by all of the accounts that I have. Have you ever taken the time to list the assets that you have? I have put the updated list with my will at the Lawyers – do you have a similar list that can be easily accessed in the event that something happens to you?

Questions for you as an Adult Child

- Mom (or Dad), with the birth of your latest grandchild we have just sat down with our accountant and insurance agent to plan for securing his (her) future in the event something happens to us. Do you have any advice you can share on what guided you in some of your plans – who did you use and what were some of the things that were important to you?
- Now that our house is paid off and our mortgage payment are finished we can begin to plan for our Golden Years. Who did you use and why did you choose them?
- We have all watched the huge increases in property values that have been occurring since the pandemic – both for primary residences and for vacation property. Are we as a family at all concerned about the Family Cottage? We are not sure that we can afford the capital gains and other costs that could become our responsibility if something should happen to you. How did you deal with these concerns about the Family Cottage with Gramma and Grandpa?

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