

## New Income Splitting Opportunities using Annuities

As part of the recent Federal Budget, any Canadian resident who receives eligible pension income can now allocate to their spouse or common-law spouse, up to one-half of that income. The amount allocated will be deducted from the income of the spouse who actually receives the pension income and then included in the income of the other spouse. (Both spouses must agree to the allocation in their tax returns for that year).

Income that qualifies for this opportunity is income that otherwise qualifies for the existing pension income tax credit.

If you are 65 years or older, qualified pension income includes:

1. Annuity payments out of a pension plan (including a foreign pension plan.)
2. Annuity payments out of an RRSP
3. Payments out of a registered retirement income fund, life income fund or a locked in RIF
4. Annuity payments out of a deferred profit sharing plan
5. Periodic payments out a money purchase pension plan
6. The income portion of annuity payments, i.e. annuities from non-registered investments

If you are under 65 years old, the only income that qualifies includes:

1. Life annuities including annuity payments out of a pension plan, but not lump sum payments from a pension plan
2. Annuity payments arising by virtue of the death of a spouse, or

common-law spouse or partner. This includes payments under an RRSP, RRIF, DPSP and foreign government pension plans.

3. The income portion of any annuity payment arising by virtue of the death of a spouse, or a common-law spouse or partner.

Government benefits such as OAS, CPP and QPP do not qualify.

If you do not have enough registered income to fully use the benefits of pension income splitting, you can create extra income by purchasing an annuity. The taxable portion of the annuity will qualify for pension income splitting, as well as for the pension income credit.

Annuities that qualify can include term certain annuities, which are payable for a limited period of time; life annuities, which are payable during an individual's life; or joint life annuities, which are payable as long as either of the joint annuitants are living.

Because annuities are guaranteed investments, you can substitute them for other fixed income investments in your investment portfolio, like term deposits or bonds.

*Consider the following example:*

Bill Smith turned 65 years old six months ago and has a \$200,000 term deposit that just matured. Bill is paying income tax at 44%. His wife, Betty, can earn another \$12,000 of taxable income, before she has to pay income tax above 26%.

Bill can take advantage of the new income splitting rules by buying an



annuity. A life annuity will provide a monthly income of \$1,351 (or \$16,212 a year) of which \$382 (or \$4,584 a year) will be taxable. Bill can then transfer up to one half of his total pension income to Betty, assuming he has no other pension income, \$2,292 will then be taxed in Betty's return.

Bill would have paid \$1,008 of tax on the \$2,292 income transferred before income splitting. Now, Betty will only pay \$76 of tax on the income transferred because of her lower rate and the pension income credit. This represents a savings of \$932 per year.

Bill might save even more if the OAS clawback is reduced or eliminated because of his reduced income.

This example assumes that Bill's annuity has no residual value. However, the money invested in the annuity can be protected by using life insurance, guaranteed payment periods, or by buying a joint life annuity with Betty.

***It is not too late to buy an annuity which will generate income qualifying for this pension income splitting and/or the pension income credit for the 2007 tax year. Call your ZLC Associate today for more information.***

## Dispersing Wealth (Estate Planning)

Estate planning should start long before you need it. It should be part of your overall financial plans, so that it is in place to accomplish your wishes after your death. It should cover not only your wishes, but if it is done properly, it should also provide for an efficient transfer of your assets in the most tax effective way possible.

Wills require careful thought, and legal advice from a competent lawyer, and perhaps your tax accountant. It should not only disperse your wealth according to your wishes, but it should make sure the government doesn't get more than what it's legally entitled to.

If you die without a Will, called "Intestate", then the government dictates the formula for where and how your assets will be dispersed. The rules used for this may be satisfactory in some situations, but may not in fact be what you would have chosen. The extra legal fees and delays in obtaining the documents necessary in this situation can be considerable as well.

While sharing financial information and plans can be difficult, it can be even more stressful and difficult for whoever has to make the decisions if they don't have the documents they need to deal with your aging, incapacity and death.

Being clear with your close family members about your wishes will ensure they are complied with. This may include health directives, or financial and legal issues. This is not when you want to surprise someone that you have named them your executor. If you have specific requests, make sure the people involved understand what you intend.

It is critical to know where your important documents are kept:

- Will, latest tax return, list of bank and investment accounts, insurance policies and property deeds
- Safety deposit box location
- Names, addresses and birthdates of everyone in your Will
- Names, addresses and telephone numbers for your Executor(s)
- Names, addresses and phone numbers for your doctor, lawyer, accountant, financial planner
- Power of Attorney (so someone can handle financial decisions if you are unable to)



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- New Representation Agreement (for personal and health care, and advanced medical directives) to allow the kind of health care decisions you would like, if you are unable to make these decisions yourself.
- Health care plan details. Are you still covered by a former employer's plan, or do you have private coverage that funds private or semi-private care, drugs, treatments, etc...
  - Funeral arrangements or burial plot arrangements, if they have already been selected and paid for.

This will be an ongoing process that will need to be reviewed and updated regularly as your life changes.

Do you have new children or grandchildren? Have you married or divorced since you last updated your plans? Have you inherited something special, or sold something previously named in your Will?

Have you remembered to update beneficiary designations made in your registered retirement savings plan or registered retirement income fund, insurance policies, or insurance company investments like segregated funds, and guaranteed investments? These do not change automatically.

Remember: as your life changes, so should your plans.

ZLC Foundation held its 22nd annual charity golf tournament in July and raised over \$50,000 for the charities of the Foundation. The major beneficiary of this tournament was Juvenile Diabetes Research Foundation.

ZLC Foundation would like to thank our generous sponsors, donors, players and volunteers for a successful day on and off the course.



from left to right:  
Jake Macdonald - JDRF Youth Ambassador  
Garry Zlotnik - ZLC Financial Group  
Peter Lamb - ZLC Financial Group  
Deborah Cushing - JDRF Representative

## Probate Planning Tips

Probate is the process of authenticating your will. It establishes that it is both valid and your final will. Financial institutions, government registries, and others prefer dealing with an executor of a probated will, as they know they are dealing with your true representative.

### Why Avoid Probate Fees?

People often try to avoid probate because it can be time-consuming and costly. As well, all documents (your assets, liabilities and will) become available to the public.

The process can take months and sometimes years to complete. During this time, your executor cannot settle the estate or make disbursements from it. With a long delay, your beneficiaries may face financial hardship.

Probate fees vary greatly by province. In most provinces they are manageable in terms of overall cost to the estate. When viewed as a filing fee, however, they can be seen as unreasonably high. The fees are a percentage of the value of the estate, which in British Columbia are \$208 for estates up to \$25,000, plus \$6 per thousand on the next \$25,000, plus \$14 per thousand on the balance over \$50,000.

Probate fees are paid whenever an asset transfers as a result of death. If you die and leave all your assets to your spouse, the assets could be subject to these fees. When your spouse dies, the fees could then be paid once again.

### Tips to Avoid or Minimize Probate Costs

- ❑ *Give it away before you die* - Be careful not to trigger capital gains tax or have to include the income earned on the gift in your own income (attribution rules can apply).
- ❑ *Register or re-register assets in joint tenancy with rights of survivorship* - Watch not to trigger capital gains or property transfer taxes, attribution rules, or to take extra risks if the joint tenant is not your spouse.
- ❑ *Establish an inter-vivos trust* - Gift assets to a trust for the benefit of a beneficiary. You no longer own the assets, but you may be a trustee and still exercise a degree of control.
- ❑ *Establish a spousal trust in your will* - This will not reduce your probate fees, but it may avoid probate on your spouse's death. Your spouse can enjoy the trust property and spend the income, and when they die, the property then passes directly to residual beneficiaries, bypassing your spouse's estate. This also usually results in tax savings.
- ❑ *Invest in insurance company investments* - Insurance companies offer investments similar to term deposits and mutual funds. Your ZLC Associate can show you how these can enhance your estate plans.
- ❑ *Establish multiple wills* - By separating your assets into those that must be probated, those that don't require probate, and those that can or must be probated in another (hopefully lower cost) jurisdiction.

**Before acting on any of these tips, it is important to seek the advice of your lawyer or accountant.**

## DOES LIFE INSURANCE MAKE SENSE IF YOU ARE RETIRED?

As we get older, often we no longer need life insurance to take care of dependants or debts, but we may have new goals and priorities and need coverage to take care of our other financial and estate plans.

We may want to leave an inheritance for our family. Insurance can allow us to enjoy our retirement savings, knowing that our spouse and children will inherit tax free money when we die.

Maybe someone in the family is dependant on us for help? Perhaps a disabled child or grandchild, or a parent in need of eldercare?

We can buy a policy and designate our grandchild, so they have tax free money to help them with their education, wedding, or perhaps a down payment on their own home.

Insurance can also allow us to leave a bigger estate by covering the taxes payable on our retirement savings plans, retirement income funds, cottage, and investments when we die. We can leave assets to our spouse without triggering capital gains tax, but when our spouse dies, all that tax comes due. We can buy insurance on both of our lives to make sure cash is available to cover the tax and leave more for our heirs.

Is there a family cottage that we want to see kept in the family? Insurance can create the cash needed to pay the cottage's capital gains tax due when we die. This way the cottage can continue to be enjoyed and passed along, without worrying if the kids will need to sell it to pay the government.

What if we want to help our favourite charity, or a cause that is important to us? We can transfer an existing policy, or buy a new policy. A gift of insurance can have significant tax savings for us now or for our estate later.

Often a second marriage presents us with potentially complicated estate planning implications. We may have children from a previous marriage, or our new spouse does, and/or we may plan to have our own children. New obligations may need to be considered. We may be able to rollover assets to our second spouse tax free, then use life insurance to equalize distributions to our other family members.

Your ZLC Associate will help make sure your insurance matches your financial and estate plans. Call us now.

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**Vancouver**

1200 Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8

T: 604. 688.7208 F: 604. 688.7268 Toll Free Line 1 800. 663.1499

**Victoria**

3711 Grange Road, Victoria, BC V8Z 4S9 T: 250. 727.3445 F: 250. 479.9716

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