Zeifmans
Ideas with impact

Planning Your Legacy:

A guide to preserving and growing your wealth

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Your future will be what you make it

How to establish a firm foundation for your priorities

It's impossible to accurately forecast everything that will take place in your future. It's a fact of life that we exist in uncertainty, placing one foot in front of the other with a plan in mind, yet without guarantee that it will come to pass. While most of us envision our later years with rose coloured glasses, to bring that reality to fruition requires an investment in planning ahead.

A study recently conducted by CIBC found that nearly half of all Canadians do not have a thorough financial plan for their future. Of the Canadians who did report having a financial plan, a third of them shared that the plan consisted merely of a budget.

While a budget is important, it's hardly enough to guarantee a secure financial future. Put it this way: A budget is to a financial plan what brakes are to a car. While important, you would hardly want to take a road trip if you didn't also have an engine and a comfortable place to sit.

BUDGET

A budget is a plan that details where, when, and how much money is allotted to various expenses. For the past nine years , Canadians have cited debt repayment as their number one financial goal. And while paying down debt is an important factor in growing one's financial abundance, it is only one piece of a larger puzzle. Budgeting for credit card and mortgage payments may relieve you of debt, but it won't guarantee greater wealth in the future.

LEGACY WEALTH PLAN

A legacy wealth plan goes beyond a budget to create a detailed plan of how you and your family will achieve your short and long term financial goals. The legacy wealth planning process should begin with a thorough look into your current financial situation, and the destination goals you've set as your intention. From there, a legacy wealth plan outlines all the steps that need to be taken to help you get to where you want to be.

ABOUT THIS GUIDEBOOK

Zeifmans has prepared this guidebook in an effort to help you better understand the various facets of a legacy wealth plan. These include:

- Succession planning
- Tax minimization
- Trusts
- Inheritance
- Family governance
- Charitable giving
- Wealth management
- Wills
- Cross-border matters
- Insurance

At Zeifmans, our team has 60 years of experience developing customized, innovative financial strategies that utilize each of the above listed pieces to form a perfectly configured legacy wealth plan. Our solutions harness our specialized knowledge and out-of-the-box thinking to take our clients where they want to go financially, preserving and growing their hard-earned wealth for the long-term.

Succession planning

Passing wealth on to the next generation

Ask most folks what their biggest intention is when they're climbing the corporate ladder, or starting an entrepreneurial venture, and they'll likely tell you about their desire to build something that can benefit their children.

After all, what good is financial abundance if you're unable to share it with the people you care the most about in the world? Passing a business on to the next generation is a highly satisfying and meaningful event. That being said, if conducted without the proper foresight and planning, it can also be very stressful and emotional.

Research conducted by the Family Business Institute has shown that only 30% of family businesses survive into the second generation. That number shrinks further to just 12% in the third generation. Why? One of the most common causes of a succession failure is a lack of planning; that the owner and founder has been so closely tied to the business, and is still so heavily involved at the time of their passing that the business cannot carry on successfully without them.

THE ESSENTIALS OF SUCCESSION PLANNING

For a succession plan to be successful, there must be a central objective kept at the heart of all planning: to ensure that the interests of all family members are protected and considered equally. And while many parents assume that their children are well-equipped to take over the business, there is so much more than day-to-day experience or loyalty that needs to go into the formulation of a succession. Taxes, liability, estate planning and ownership stakes all need to be formalized and communicated.

START NOW

Given the breadth of documentation and organization that is inherent in the succession planning process, the rule of thumb is to allow at least 10 years for the process to be completed.

CHOOSE THE SUCCESSOR(S)

A recent study found that only 52% of family businesses anticipating a change in ownership will be passing the business on to a family member. That number fell from 74% five years ago. Whether you're passing the business on to a family member or a company insider, you'll also need to consider how involved you want to be once you retire.

TRAINING

Never assume that your successor is ready as-is to take on his or her new role. Taking the time to thoroughly train your successor will result in a successful handover in the future.

ESTABLISH STRUCTURE

If possible, begin by determining a timeline. How many years do you have left until retirement? Planning according to a real

deadline is a helpful way to infuse a sense of urgency to the proceedings. Next, you'll need to establish the details of the transition of ownership. Some factors include:

- Legal structure
- Tax structure
- Financing
- Valuation

PLAN THE HANDOVER

The moment at which the company changes hands is an important one. Far from the "finish line", it's the beginning of a new stage in the race- one in which it's critically important to maintain clear communication and support to employees and customers.

REVIEW FREQUENTLY

Once you've established your succession plan, it's important to continue to review it on a regular basis. As your business grows and evolves, some components of the plan may need to be adjusted to adapt to your new landscape.

Charitable giving

Harness the power of your passions

Philanthropic endeavors are a big win/win. Not only does charitable giving enable you to lend support to the causes that are closest to your heart, but it can also assist in shifting the balance of your finances towards a more favourable financial structure.

One of the most rewarding parts of amassing wealth is the ability to donate to organizations that you believe in. Whether that's giving to local organizations that work in your own community, global charities that work throughout the world, or by establishing your own charitable foundation that uses your influence to gather support within your industry.

Charitable giving is a powerful tool that should be thoroughly considered in any legacy wealth planning scenario. Your donations can be used as leverage to balance out your other wealth goals. Making donations that are backed by a wealth strategy can positively affect:

In Canada there are a few different ways to structure charitable giving on an ongoing basis:

1. Direct donation – in this case you simply donate to causes you believe in from your personal or corporate account.
2. Creating a charitable foundation. This can be broken down into 3 types:
   a. Private Foundation
   b. Public Foundation
   c. Charitable organization
3. Donor advised funds – this way you use a charity that is set up to receive donations from you and you direct where the funds go as required.

Each option has its own positives and constraints. Foundations offer greater control but they lack privacy and require ongoing maintenance. Donor advised funds lack flexibility but provide privacy and are typically cheaper to have operated.

BENEFITS OF DONATIONS

- Reduce taxes from annual income.
- Can be used to minimize taxes on death
- Can be used in conjunction with insurance or flow through shares to provide a significant benefit to the donor and the charities

By using advanced structures, such as insurance or flow through shares, the cost of giving is reduced, enabling you to give even more.

Annual income –
Charitable giving strategies can be implemented to offset or minimize taxes that would otherwise be due.

Income taxes –
Income tax savings can add up when charitable donations reach larger amounts.

Estate planning –
Charitable giving strategies can be implemented to offset taxes that would otherwise result from the deemed disposition of appreciated investments at death.

Types of charitable structures

There are many different charitable structures, and each carry different tax and non-tax implications. Given the fact that assets transferred to a charitable organization are no longer under your control, it's important to consider the various structure options and choose one that corresponds with your needs.

Private Charities

People can set up a private charity which is classified under three different categories:

PUBLIC FOUNDATION – A public foundation is established as a corporation or trust, and has exclusively charitable purposes. It will generally give more than 50% of its income annually to other qualified charities (e.g. registered charities), but it may carry out some of its own charitable activities as well.

More than 50% of its governing officials must be at arm's length of each other, given that a public foundation will generally receive its funding from a variety of arm's length donors. Its income cannot be used for the personal benefit of any of its members, shareholders, or governing officials.

PRIVATE FOUNDATIONS – Private foundations are established as a corporation or trust, with exclusively charitable purposes. A private foundation carries its own charitable activities, in addition to funding other registered charities.

Unlike a public foundation, a private foundation can have 50% or more of its governing officials not at arm's length. This is because it will generally receive the majority of funding from such donors. Similar to a public foundation however, the income cannot be used to personally benefit members, shareholders, or governing officials.

CHARITABLE ORGANIZATIONS – A charitable organization is established as a corporation, trust, or under a constitution. It has exclusively charitable purposes, and while it mainly carries out its own activities, it will also donate to registered charities. Over 50% of the governing officials must be at arm's length of each other, and it will largely receive funding from such donors. As above, income must not be used for the personal benefit of members, shareholders, or governing officials.

Donor advised funds

Another option is to use a Donor Advised Fund (DAF) which can reduce the administrative burden of running a charity. DAFs make it easier for donors to minimize the amount of administrative burden of running a charity. DAFs also provide more privacy in comparison to having a charitable foundation. Donating appreciated securities to a DAF enables the donor to avoid paying capital gains on the sale while receiving an income tax deduction.

International charitable giving

Tax rules governing gifts to foreign charities remain complex. Given that the deductions are dependent on the individual regulations pertaining to the destination country, it's helpful to speak to a knowledgeable tax advisor before embarking on this strategy.

Important note

Donating appreciated public securities to any of the above Canadian charities enables the donor to avoid paying capital gains on the sale while receiving an income tax deduction.

Tax minimization

Keep more of your hard-earned money

Implementing a new taxation strategy can radically impact wealth preservation; it's an effective way to ensure that your family is building wealth over the long-term by maximizing all your existing opportunities.

Think about it like heating a home in the winter. You may have a brand new high efficiency furnace, but if your house has worn out windows and doors you are likely losing a lot of the heat you're producing. Similarly, if you're needlessly paying tax overages, you're leaking money that could otherwise be supporting your family's future. Finding and implementing the best taxation strategy for your unique situation enables you to make the most of what you have.

Particularly with succession planning, families often find themselves surprised as the business changes hands and they are left with a substantial capital gains bill that they may not be able to afford. Given that it can take years to fully implement an effective strategy, the key is to get started early.

HIGH INCOME EARNERS NEED CREATIVE SOLUTIONS

There are several options to begin shifting the tax burden and implementing more creative solutions. Even the most complex financial situations can stand to benefit from an innovative approach to taxation. At Zeifmans, our taxation experts have 60 years of experience assisting clients in remaining compliant while availing themselves of every available opportunity to reduce the impact of taxation.

MINIMIZE CAPITAL GAINS TAX

If a business is passed onto a family member, whether by sale or gift, it is considered to be disposed of at current value. Capital gains tax must be paid on the difference between the initial price paid to acquire the business and today's fair market value. Generally, the only exemption is in the case of a business passed to a spouse, in which case the gains can be deferred until the spouse sells the business.

Qualifying small businesses can benefit from a capital gains exemption of up to $866,912 for 2019. There are several conditions that must be met in order to qualify, but a trusted tax advisor would be able to assist you in determining whether this deduction is right for your family.

ESTATE FREEZE

An estate freeze is a corporate reorganization in which capital gains is minimized by halting the future growth in the value of shares held by a particular shareholder. Essentially, in freezing the estate, the successors are prevented from the impact of capital gains tax on the future appreciation. A common method of estate freeze is exchanging common shares for fixed-value preferred shares, and then issuing children common shares.

INCORPORATE

Unincorporated businesses cannot conduct an estate freeze, nor can they qualify for the capital gains exemption. Depending on your unique situation, incorporating could provide you with enhanced opportunities for tax minimization.

DEFERRING TAXES

In certain cases, a seller can defer taxes, declaring the capital gains as spread out over a number of years. One such incidence is when the seller agrees to finance the sale. Depending on the circumstances, the capital gains could be spread out over 5 – 10 years. It's yet another example of how planning and implementing a tax minimization strategy early can prevent an unbearable and sudden tax burden down the road.

INCOME SPLITTING

Despite the laws that were recently introduced to diminish the availability of this strategy, income splitting is still very much an option in certain situations. For instance, prescribed rate loans and gifts to trusts have not been affected. It's important to note, however, that receiving income from such strategies may negatively impact an individual's ability to receive certain other tax credits.

INVESTMENT PORTFOLIO INCORPORATION

Recent increases in personal tax rates may make it beneficial to transfer investment portfolios to a family holding company. In this case, the tax rates may be lower for investment income.

DIVIDENDS AND SALARIES

While the regulations have changed, it is still possible to employ family members and pay them a salary- provided that it is reasonable in relationship to the work they do. Similarly, low tax rate family members can hold shares, allowing you to pay dividends on those shares.

TRUSTS

When a business is transferred to a trust, it allows the new owner to defer the tax realization. It is worth noting though that there is generally a tax realization or deemed disposition on accrued losses or gains every 21 years following the trust's formation.

CHAPTER 5

Wealth management

Living a life that supports your future

Imagine that you're training for a marathon. Though it's tempting to solely consider the events that will take place on race day, any good coach will tell you that your success lies in what actions you consistently take throughout the course of your preparation.

Investing money, protecting assets, budgeting, and frequently reviewing goals are all equally important facets to wealth management. In other words, wealth management is the ongoing cardio necessary for you to complete the marathon of legacy planning, and to successfully pass the baton onto the next generation later in life.

What long term goals do you have for your family? To get there, you'll need to save some, spend some, and remain consistent in your commitment to live in alignment with your vision.

INVESTING

Creating an effective investment strategy begins with determining your desired level of risk. The allocation of assets can then be routed into the various types of investment options:

ACTIVE

Active investing is the most hands-on method. It involves frequently buying and selling holdings to attract additional returns. It can be pricey, given the labour-intensive nature that often racks up administrative costs.

PASSIVE

In a passive investment, the investor intends to profit from the long-term gain. This strategy is common when following an index, or investing in a mix of stocks and bonds. Given the low administrative involvement, this method is very cost effective.

Your investments should be reviewed yearly in association with your personal financial growth, the success of the investments, changes to your risk tolerance, and comparing the growth trajectory with the length of time until your goal date. As new cash is added, or as one asset grows more substantially than the others, you'll need to rebalance to maintain your level of risk tolerance.

PROTECTING YOUR ASSETS

Unfortunately, it's not enough to simply consider growing your wealth. To secure your family's financial future, you'll also need to protect it. Those of us with deep pockets are the most susceptible to lawsuits and other unexpected events that can suddenly drain critical resources and set a legacy wealth plan back by years and years.

LIABILITY INSURANCE

This is an area often not focused on but there are numerous situations where liability can arise and people are not properly insured. While some insurance is obvious, such as car insurance, there is a serious need for other types of insurance, and to constantly monitor your policies to ensure you are covered for various changes (such as renovating house, etc)

SEPARATE ASSETS

Particularly for combined families with children from previous marriages, it's potentially worth considering keeping assets separate. In the event of a divorce, shared assets will be split down the middle, which may or may not be the most suitable circumstance for your family.

RENTAL PROTECTION

If you have rental investments, or plan to make them in the future, consider opening a corporation or other business entity. In this respect, should you encounter a disgruntled tenant who wants to sue you, they can only attack the assets contained within that corporation.

MONITOR JOINT ACCOUNTS

If you share an account with a spouse, child, or other individual, be vigilant in keeping an eye on the activity. Remember- whatever financial action befalls them will also affect your assets contained within that account.

DEFINE PARTNERSHIPS

In the same manner as a joint account, your assets can be affected by whatever befalls your business partner. If you are currently involved in an informal partnership, take the time to formally define the finances to avoid an unexpected loss.

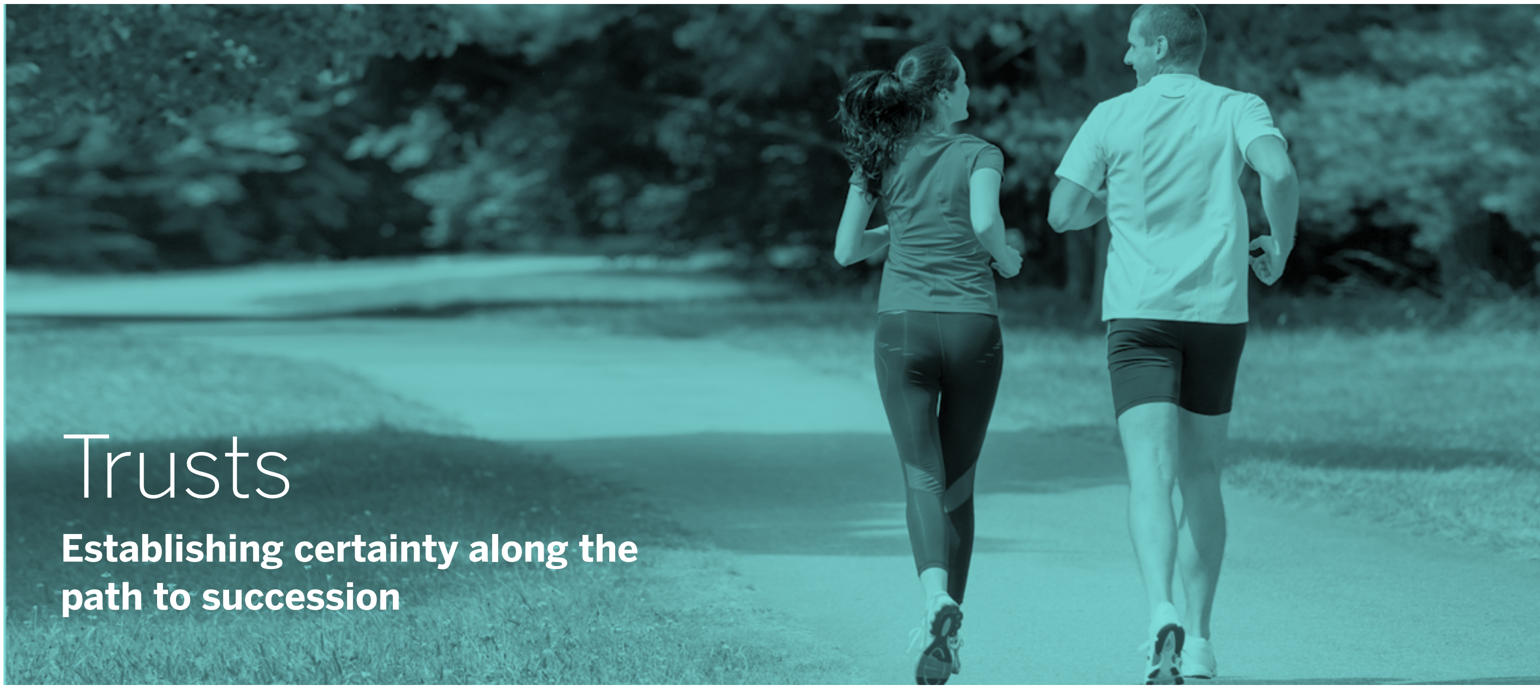
BUSINESS ENTITIES

When there is an operating company it makes sense to have investments or other passive assets held in a separate holding corporation to avoid the liability associated with the operating company.

BUDGETS OF THE RICH AND FAMOUS

While it's tempting to live the high life and take advantage of every lifestyle perk afforded to you by your financial success, one of the most effective wealth preservation techniques is to effectively budget. Living well within your means, and spending according to a well-considered plan will help you to not only maintain wealth but to grow it.

Often, high-net worth individuals will receive lump sum payments only a few times throughout the year. If a proper plan is not set in place to account for the following "leaner" months, a cash flow problem could arise and potentially necessitate the liquidation of an otherwise valuable asset.



Trusts

Establishing certainty along the path to succession

Tax minimization, asset protection, and the successful transfer of wealth can all be accomplished by the creation of a family trust. As a legal entity, a trust provides a number of key financial benefits that provide the recipient with greater freedom and flexibility.

Like a company, a trust can hold assets, enter into contracts with other partners, and invest money. When money is transferred to a trust, the individual responsible for the transfer immediately relinquishes control of the assets to the trust.

There are three key players in the foundation of a trust:

Settlor – The settlor is responsible for transferring the initial portion of assets into the trust for the benefit of the beneficiaries. This individual often will not have family ties, so as to avoid tax attribution rules.

Trustee – Trustees are the administrators of the trust. They decide how to allocate income and capital based on the provisions of the trust agreement.

Beneficiary – Beneficiaries receive the income and capital from the trust. In the case of a family trust, they are often family members.

WHY CHOOSE A TRUST?

There are many reasons why families choose to establish a trust when transferring assets.

TAX MINIMIZATION

Trusts are often established in conjunction with an estate freeze strategy. When an individual has a significant growth in assets, he or she will choose to freeze the estate and transfer the existing shares to the trust. Then when the individual passes away, the family does not need to pay capital gains on the assets appreciated since the freeze.

TRANSFER WEALTH

A trust is an effective way to transfer a company from one generation to another, while minimizing the associated tax burden.

ASSET PROTECTION

Provided that the trust was established when the wealthy individual was doing well, all the assets contained within the trust are protected from creditors and lawsuits in the future.

ENHANCE DEDUCTIONS

If shares contained in a trust are sold, and qualify for the capital gains exemption, the tax that is payable can be minimized by sharing it between multiple beneficiaries.

PROVIDE SECURITY FOR A CHILD

A trust enables the owner of the assets to control how and when a child receives the money contained within the trust. While trusts have also typically been used to assist in income splitting for grown children, recent regulatory changes have affected this use.

CHARITY

Rather than leaving a certain percentage of your estate to charity in your will, you can protect the amount donated and eliminate the tax liability by forming a charitable remainder trust. While you're living, you will benefit from the income made and the tax credit, and upon your passing the charity will receive the remaining capital without being subject to probate.

Wills

Gaining clarity on the details of your wishes

Formalizing your will is an important step in ensuring that your family benefits from the financial future you have in mind for them. When properly prepared, this crucial piece of documentation can ease the proceedings following your death, and minimize undue stress and conflict between family members.

While many people assume that writing one's will is a single event, it is instead an ongoing process. As we all know, life changes quickly. An unexpected illness, a divorce, or a surprise windfall inheritance can drastically impact the contents of a will, making it necessary to frequently update and review.

WHAT IS A WILL?

The purpose of a will is to provide you with control over how your assets will be distributed when you pass away. Assets can include property and business investments, and the will describes in detailed how much of each should be distributed to whom.

Your will is used only after you have passed away. And while the majority of us would like to envision ourselves peacefully but suddenly passing away in our sleep as a happy and healthy Centenarian, the fact is that this isn't always the case. In the event that an individual becomes ill and is unable to take care of their own finances while they are alive, they need to have established power of attorney responsibilities.

While many people assume that writing one's will is a single event, it is instead an ongoing process.

POWER OF ATTORNEY

Though there are many different kinds of power of attorney (PoA), the most frequently referenced is a financial power of attorney. In this respect, there are two broad PoA classifications:

GENERAL POA

A General PoA handles all your financial affairs.

SPECIFIC POA

A Specific PoA handles a particular element of your finances.

In order for the PoA to be legally sound, you must have been of sound mind when you designated the individual and signed the document. And in order for the PoA to take control of your finances, two attending physicians need to have signed off on your incapacity .

ONGOING REVIEW AND PLANNING

Once you have established both your will and PoA documents, it's wise to include their review in your annual financial checkup. A few minutes spent reviewing and confirming that everything is up to date have the potential to avert crisis and unnecessary familial disputes in the event that you fall ill or pass away unexpectedly.

Inheritance

Understanding the process of giving and receiving inherited gifts

The giving or receiving of an inheritance is an emotionally charged topic for a variety of reasons. Obviously, an inheritance only changes hands when a family loses a loved one. Amidst the grief and shock that results from a death in the family, the recipients face new opportunities- and sadly sometimes conflict as well.

For high-net worth families, the promise of an inheritance remains both a known fact and somewhat of a mystery. While the certainty of inheriting something is often discussed, the amount to be inherited, and the process of receiving that amount is seldom talked about.

Parents and grandparents who give assets to their family members often have ideas about how that money would be best spent. Similarly, the beneficiaries also have plans for what will be done with the money, whether purchasing a home, investing in a child's education, or starting a new business.

With all this emotion, and often conflicting opinions, it's easy to understand why the inheritance process needs some checks and balances to ensure a smooth transfer of wealth.

PROBATE

Probate is the process by which a will is validated prior to the disbursement of assets. Given that wills often change over time, and individuals may write several different versions of the document throughout the course of their life, the probate period allows the courts to resolve any confusion between documents.

Once a Last Will and Testament is established, and the courts formally accept the Executor, the Executor is given a Grant of Administration, which they can then take to the bank to begin the process of transferring assets.

WHEN YOU'RE GIVING AN INHERITANCE

When some people leave an inheritance to a family member, they want them to spend it however they choose. For others, they like to have a say in where and when the money is used. There are several strategies that can be employed if you are someone who would like to remain somewhat in control of where the inheritance money will wind up.

TESTING THE WATERS

Early planning is the key to success in any financial endeavour. In the case of an inheritance, consider giving a smaller sum of money to your family member and observing how he or she spends it. This may provide you with a better understanding of your comfort level in allowing the individual to spend their inheritance at their own whim.

If you gift your son $14,000 and watch him promptly spend it all on unnecessary pursuits, you may feel more justified in structuring the inheritance in such a way that you retain some control.

INCENTIVIZED TRUSTS

Some individuals choose to structure their inheritances as a trust with incentive-based distributions. For instance, sums are disbursed in accordance with the achievement of employment income, or education level. In this respect, the trust encourages the beneficiaries to remain motivated despite their inheritance.

FOLLOW AGES AND STAGES

Many trusts allow disbursements in accordance with life milestones. For instance, smaller amounts are issued when the beneficiary is younger, and larger lump sums as they reach certain big birthdays, get married, or purchase a house.

WHEN YOU'RE RECEIVING AN INHERITANCE

If you're in the process of creating a legacy wealth plan and also have the knowledge that you will be receiving an inheritance in the future, it's a good idea to plan ahead as much as possible. Recent studies have shown that a third of people who receive an inheritance blow through the full amount within the first two years ! While you won't likely know the exact amount you will receive, planning ahead can help you to maximize whatever amount comes your way.

TAX ADVANTAGED INVESTMENTS

An easy strategy for receiving an inheritance is to plan to directly invest the money into tax-advantaged accounts. Pensions, RRSPs, TFSAs, and RESPs are all excellent places to send that money immediately upon receiving it. Inherited money is icing on the cake, and investing it in your own future is among the smartest ways to honour the gift.

PASSIVE INCOME

Investing an inheritance in a passive income stream is another intelligent way to maximize the amount you've received. A passive investment in a long-term stock index sets your money aside and allows it to grow over the long term.

Canada does not have an inheritance tax, which means that when you do receive the amount, you can rest assured that you will retain it in full.

Cross border

Sharing wealth with family outside Canada

Connections between Canada and the US are more common than ever. American investment in Canadian real estate and business, and families with dual citizenship are continuing to weave together the financial story of both our countries.

Tax law can be complicated at the best of times. Add to this existing base level of complication the combination of two separate countries, with two separate taxation procedures, and it can be difficult to decipher which laws will apply to whose transactions. When an individual's portfolio includes American investment, or their family is spread out across the continent, it's critical to consider the tax ramifications lest wealth be lost needlessly.

Thankfully, the team at Zeifmans has over sixty years of experience helping clients to plan their legacy wealth strategies while including all the compliance and reporting processes necessary to account for both familial and business dealings in the United States.

AMERICAN TAX SYSTEM

The Canada-U.S. Tax Treaty modifies some of America's complex tax laws, but not all of them. The biggest factor in determining how these laws are applied is whether the individual is considered to be a "U.S. Person". This can include:

- U.S. citizens
- Person born in U.S.
- U.S. resident with U.S. domicile

For the purpose of estate laws, a "resident" is someone who intends to stay in the U.S. indefinitely. Their "domicile" is presumed to be their place of birth, though this could be rebutted.

One of the biggest difference between the tax system in the U.S. and Canada is that there is no taxation at death in Canada. We do not have an inheritance tax; we consider all assets to be sold at the time of death. Taxes are payable on the gain in asset value from the acquisition date. In the U.S. however, there are three forms of taxes in this regard:

FEDERAL ESTATE TAX

Estate tax is based on the individual's worldwide estate at death, less the exemption amount and applicable deductions. Canadian residents who aren't U.S. persons are only liable for this tax on U.S. property, including real estate, certain securities, and other assets. Canadians can claim the same rebates as Americans, but prorated against the value of their worldwide estate.

GIFT TAX

This tax applies to property that is transferred for less than full consideration, and it applies to gifts from U.S. persons, and gifts of certain U.S. property by non-U.S. persons. There is a lifetime exemption of \$5.5m and an annual exemption of \$14k per individual.

GENERATION SKIPPING TRANSFER TAX

The purpose of this tax is to prevent people from skipping a generation of estate tax and giving directly to their grandchildren. There is a lifetime exemption of $5.5m.

TAX STRATEGIES FOR U.S. – CANADA

For the purpose of tax planning, there are several strategic options to minimize the cross-border tax burden. They depend on the individual's status as a U.S. person, and their assets.

NON-U.S. PERSON WITH U.S. ASSETS

If a non-U.S. person owns U.S. assets valued at over $60k and their worldwide estate exceeds the exemption amount, they can still be exposed to U.S. estate tax. In planning the estate, there are a few options to minimize the impact:

- Keeping the individual's worldwide estate below the exemption amount
- Reducing U.S. assets to below $60k
- Selling assets or restructuring ownership of assets
- For married couples, using a bypass trust for U.S. assets will prevent a surviving spouse from being subject to U.S. estate tax

MARRIED COUPLES WITH ONE U.S. CITIZEN

In this situation, it's advisable to minimize exposure and defer tax to when the second spouse dies. This is because the non-U.S. spouse is not eligible for the same benefits and deductions of the U.S. person. In this case, the options include:

- Using a bypass trust as above
- Using a Qualifying Domestic Trust, which allows the Canadian spouse to defer the tax until their death
- Reducing the value of the U.S. spouse's estate by annual gifts to the non-U.S. spouse using the gift tax deduction
- Move insurance policies over to a trust
- Shift ownership of Canadian assets solely to the Canadian spouse

CHILDREN/GRANDCHILDREN ARE U.S. PERSONS

When children or grandchildren are U.S. persons, there are still ways to share wealth without succumbing fully to the tax burdens.

- U.S. inheritance trust can be established that limits discretionary access to the funds in such a way that they do not form part of their overall estate for the purpose of U.S. taxes

Zeifmans' cross-border experts can assist you in structuring a tax strategy that will help your family to maximize assets and limit tax exposure.

Family governance

Increase your family's long-term wealth

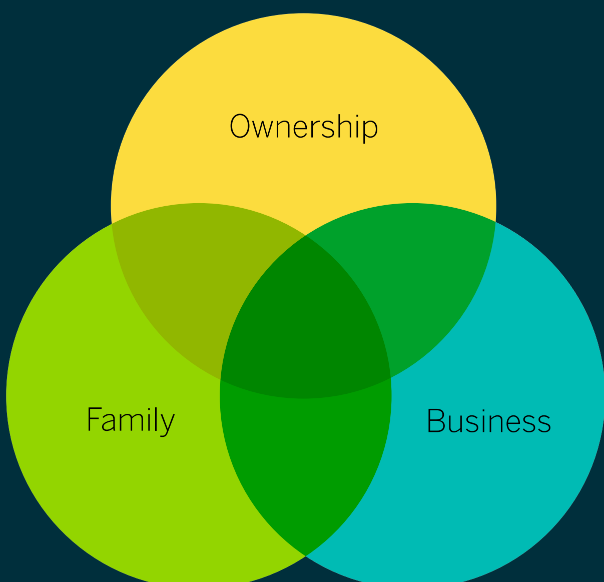
Legacy wealth planning shouldn't stop at simply maintaining and protecting wealth. A truly effective strategic plan will help your family grow your fortune consistently and sustainably into the future, providing for generation after generation.

To accomplish this end however, you'll need to make sure that the family understands your wealth and business configuration, and that future generations share the motivation to progress the wealth trajectory.

A question we often see from legacy wealth families is the challenge of instilling in the younger generations (who are accustomed to a more luxurious lifestyle) the same level of motivation that inspired the older generation to begin the family business in the first place. While the founding entrepreneurs are often fueled by the desire to solve a niche problem in the marketplace, or to escape poverty, later generations may not share the same passion or experience.

Here is where the process of family governance begins. It's a process that needs to be based on a foundation of communication, and revisited at regular intervals to ensure that the family mission is preserved and understood, across the generations.

Three Circle Model of the Family Business System



THE THREE-CIRCLE MODEL

Developed at Harvard business school in 1982, the three-circle model of family governance is still used today to structure discussion and planning around family wealth. The three circles are:

- Ownership
- Family
- Business

While each of the three groups have their own unique roles and responsibilities, it's inside their overlaps where we find the most powerful opportunities for communication. The interaction, support, and decision making takes placed based on a mutual understanding and appreciation of a clear definition of everyone's roles. If everyone in the family understands which decisions are theirs to make, family governance meetings run smoothly and provide substantial value.

WHAT DOES FAMILY GOVERNANCE ACCOMPLISH?

A family governance structure facilitates communication and understanding by providing a forum within which several activities can be conducted:

- Establish a family vision
- Define the philosophy behind how the family interacts with the business
- Educate the family members on the family history and their ownership rights
- Establish a succession plan and communicate the details
- Celebrate milestones that have occurred since the last meeting
- Acknowledge and resolve any conflicts that may have arisen

Family governance structure can take on several forms. Finding the correct structure for your family will depend on the following factors:

- Number of owners
- Number of generations and their involvement in the business
- Number of owner-managers and non-family executives
- Size of business
- Available resources
- Relationship and harmony between family members
- Decision making protocol

FAMILY GOVERNANCE STAGES

Similar to any other family activity, governance will change as time goes on and the family members and business grow and age. Family governance at the stage of an early business endeavor with a young family will be far more casual than later stage businesses several generations in.

At later business stages, it will be helpful and necessary to include third party advisors in your family governance process. Zeifmans is a second-generation family run business, and as such we have a wealth of both personal and professional experience assisting in this regard.

...you need to make sure that your family understands your wealth and business configuration.

Insurance

Protecting the life you've built

Insurance is a critical component in a legacy wealth plan. While most people think about insurance in terms of protecting what you've built, insurance must also be considered as a method of protecting an even bigger asset: Your ability to earn an income up to the point where you choose to retire.

Think about your insurance strategy as the roof on your house. While the foundation, plumbing, heating, and finishes are all important, your house would be vulnerable to the elements without a roof over top. Similarly, if you neglect to implement comprehensive insurance policies, you're leaving your wealth vulnerable to any number of unexpected events.

Insurance policies can also be strategically purchased in order to maximize the amounts that your family or a charity receives, while limiting taxes.

THREE MAIN TYPES OF INSURANCE

There are three main categories of insurance that are relevant within legacy wealth planning scenarios:

LIFE INSURANCE

Life insurance protects your family in the event of your death, providing the money necessary to deal with any outstanding liabilities. There are two types. Term insurance is purchased for a set term- generally between 10 and 30 years. Term insurance is beneficial in situations where you are planning a retirement at a set date, or during the term of a mortgage. Permanent insurance is a lifetime policy that is paid out at death.

LIVING BENEFITS

Living benefits are policies that insure you in the event of an injury or illness. These policies act as support to ensure that you will be able to continue to earn income regardless of your circumstance. While people like to imagine that they'll exist in perfect health until retirement, we can't be certain that this will be the case. Falling ill or sustaining an injury equates to time off work and lost income. But life goes on, bills need to be paid, and a legacy wealth plan should continue taking steps forward no matter what.

- Disability insurance protects you in the event of an injury that prevents you from working
- Critical illness insurance is paid out in a lump sum following specific health issue occurring and covers you financially while you focus on your health
- Long-term care insurance is valuable later in life, and assists in paying for in-home or facility care

Though it's never fun to consider the possibility of an unexpected illness, it's wise to plan ahead. As we age, it becomes more difficult and costly to secure such policies, so it's prudent to secure protection as early as possible.

LEVERAGING INSURANCE FOR TAX AND ESTATE PLANNING

Insurance is an extremely valuable tool in the tax and estate planning arena. While not always the perfect tool for every situation, it can be used to accomplish a number of tax and estate objectives.

SEGREGATED FUND PRODUCTS

Similar to mutual funds, segregated fund products offer the potential for growth with exposure to different asset classes. They offer maturity or death benefit guarantees of 75 to 100% of a deposit, and offer growth, flexibility, and protection. If the segregated fund is purchased with non-registered money, a beneficiary can be named on the contract and allowing the payout to bypass probate. They are also great for business owners, given that creditor protection in the event of a business failure.

Though Zeifmans is not an insurance provider, our comprehensive legacy wealth strategies always include guidance for the types of insurance protection that's right for your unique situation.

What will your legacy be? It's a big question, and it's one worth considering. When you reach the end of your time here, how will your family and friends remember you? What protections will be in place to provide for their future?

A legacy wealth plan takes a detailed look at your history, current financial situation, and long-term goals to formulate a custom roadmap developed exclusively for the purpose of your unique journey. And while the focus of the plan is to secure your finances, a truly effective legacy wealth plan should go beyond money to provide so much more:

- Free yourself from the worry and anxiety regarding how to reach your goals
- Establish clear communication regarding your intentions and relieve familial tension
- Enable you to make time for the personal activities that add joy to your life

At Zeifmans, we understand the nature of planning a legacy because we're living one ourselves. We're a second-generation family-run business with over 60 years of experience assisting our high-net worth clients in preserving, protecting, and growing their fortunes over the long term. We know that it all begins with a relationship. An understanding. And the fostering of trust.

Allow us to become your trusted advisors as you begin to create your own legacy wealth strategy. To speak to one of our professionals, contact us today at (416) 256-4000, or send us an email at info@zeifmans.ca.
Great ideas.
Positive impact.
That's Zeifmans.

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