

## The Income Tax Bond

Glenn, 65, and Gail, 63, are about to retire. They have accumulated about \$500,000 in their RRSPs and own their home, free and clear. They have two adult children, Larry and Lynn, and want everything left to them after they have both died. Glenn and Gail realize that the value of their home will pass tax-free to their children and are aware their **RRSPs or RRIFs will become fully taxable at that time.**

They don't have a problem while they are both alive or even if one of them dies. Thanks to some good estate planning advice, there won't be much, if any, of a tax grab on the first death as everything goes to the survivor. RRSPs and RRIFs can pass tax-free to the surviving spouse, thus postponing taxes until the second death. **The big tax bite will occur on the second death.** Other assets may be subject to taxes at this time, too.

Glenn and Gail have decided to take an income from their RRSPs in the form of a RRIF. An income of \$2,500 per month, increasing by 1.5% each year to allow for inflation, will leave about \$465,000 at their life expectancy. With the top income tax rate at almost 50% in most provinces, that leaves only \$116,250 each for Larry and Lynn after Canada Customs And Revenue Agency (CCRA, formerly Revenue Canada) finishes running the money through the income tax filter. And this filter is virtually unavoidable.

**There is a better way** to take care of this tax problem, a unique type of joint life insurance policy,

called joint-and-last-to-die. It is more economical than usual because it doesn't pay out until the second death. This policy can be an even better deal if purchased at younger ages in preparation for the inevitable tax bill.

Think of it as an "Income Tax Bond." Here's how it works - Glenn and Gail buy an income tax bond to pay off their \$235,000 estimated tax bill. They pay a very low interest service fee for this bond, just 1.5% per year as non-smokers. When the second person dies, the bond matures for the full amount and gets paid to their kids, tax-free, and no further interest payments are required. In other words, the bond matures at the exact time the money is needed most to pay the taxman.

By adjusting their RRIF income a little higher to make the \$300 monthly interest payment, Glenn and Gail will leave a bit less in their RRIF at life expectancy, about \$425,000. The income tax bond matures on the second death, just in time to pay the tax bill. The full amount of the RRIF then goes to Larry and Lynn - some \$212,500 each. If the bond pays more than required to pay the taxman, the balance goes to the kids, too.

If Glenn and Gail have a favorite charity they would like to leave a legacy to, they can actually avoid paying the taxman anything at all by willing their entire RRSP and RRIF proceeds to that charity. They would then simply use a joint-last-to-die policy to leave an equal amount to their children, tax-free.

**Want to maximize your kids' inheritance? Call today:**



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