Davidson Professional Wealth Management

Portfolio Matters

By: Brad Davidson, CIM, CFP Vice President & Portfolio Manager
Chris Emms, FMA, CFP Associate Advisor & Financial Planner

July 2012

- **Estate Planning - Probate Fees & Joint Ownership of Assets**
- **US Real Estate- Considerations when purchasing US Real Estate**
- **Canadian Sector Performance**
- **Number Crunching**

Written and Researched By:
Brad Davidson, CIM, CFP
Vice President & Portfolio Manager
Chris Emms, FMA, CFP
Associate Advisor & Financial Planner

Estate Planning-Probate Fees & Joint Ownership of Assets

Over the past decade Baby Boomers have been focused on accumulating sufficient assets to ensure that their lifestyle requirements in retirement are fulfilled. As they enter retirement the next phase of their wealth plan, estate planning, begins in earnest.

3 Main Goals of Estate Planning

There are three main goals associated with estate planning.

1. Maximizing the amount of your estate that passes to your beneficiaries by minimizing the amount of taxation and probate fees paid.

2. Ensuring that the assets pass to the intended beneficiary.

3. Organizing your estate and affairs so that the burden placed on the executor or executrix is minimal particularly when this person is a family member.

In some cases there is conflict between these three objectives and careful analysis must be undertaken to ensure that a strategy put in place to fulfill one objective does not undermine the ability to achieve another objective.

Continued on page 2

Probate Fees- Often viewed as the Canadian equivalent of estate tax, probate fees are levied by the provincial government on the value of the estate when it grants a certificate to appoint an estate trustee. This ensures that the Will is in fact the final Will and Testament and that executor/executrix is indeed the duly appointed individual intended by the deceased. Probatable assets include real estate, investment assets and bank accounts as well as any personal property registered in the individuals name such as cars, boats etc. In Ontario this amounts to approximately 1.5% of the value of the estate.

Joint Ownership- One of the simplest ways to avoid probate is to add the names of your children and intended beneficiaries to your investment account or vacation property. Upon the death of the first joint owner the assets pass automatically to the other joint owner(s). As such the assets do not pass through the estate of the deceased and are not subject to probate.

There are several considerations that need to be made prior to undertaking this strategy.

- ❑If there is a change in beneficial ownership there may be tax consequences for any capital gains that are triggered.

- ❑The assets now in joint name may become subject to the creditors of the new joint owner. This would be an issue if a joint owner was successfully sued.

- ❑In the event of marital breakdown the assets may be deemed to be matrimonial and subject to equalization consideration by the courts.

- ❑In the event of multiple joint names there may be disagreement as to how and when assets, such as a family cottage, should be sold. This can lead to family discord and strife.

- ❑Unequal distribution of estate assets may occur in the event that some beneficiaries are added as joint owners and some are not. Additional consideration such as adding a reconciliation clause to the Will should be taken to ensure the fair treatment of all.

- ❑If the asset in question is US real estate it could be subject to the IRS gift tax.

There can be consequences when undertaking joint ownership strategies to avoid probate fees. The negative impact may outweigh the benefits so careful planning should be done to ensure that unintended consequences do not compromise the overall plan.

US Real Estate

The collapse of the US housing market that began in 2006 coupled with the rapid appreciation of the Canadian dollar relative to the US Dollar has made US real estate very attractive to Canadians. An aging demographic that longs for the warm winters of the southern US has created significant demand for vacation properties, particularly in Florida and Arizona. While the price and timing may seem attractive, investors should ensure that they perform the proper due diligence and fully understand the costs and risks associated with purchasing US real estate.

Breaking down the real costs-

Taking the time to perform a complete accounting of all fees and costs is important. A number to consider before purchasing US real estate are:

- ❑HOA (home owners association) fees
- ❑Property taxes (may be higher for out of state owners)
- ❑Financing costs
- ❑Transaction or brokerage fees
- ❑Sales taxes on purchase and sale
- ❑Annual upkeep and maintenance
- ❑Property management costs if applicable

US Estate Tax-

The US Internal Revenue Service taxes individuals based on citizenship but also on where the assets reside. When a Canadian who owns US real estate dies they may be subject to US estate tax. The amount of the tax depends upon the size of the estate and can be as much as 45% of the value of the US *situs* assets. Proper planning can help to mitigate this tax. The calculation to determine exactly what the tax implications will be is relatively complex so be sure to engage an experienced professional to assist.

When purchasing US real estate it is important to perform the proper due diligence prior to making the transaction. For many individuals this is an emotional purchase and as such they do not take the time to understand the full costs and tax ramifications prior to making the purchase. It is much more effective to do the planning in advance of the transaction by speaking with a professional before undertaking a purchase to avoid surprises.

Davidson Professional Wealth Management

By Brad Davidson, CIM, CFP
Vice President & Portfolio Manager
Chris Emms, CFP, FMA
Associate Advisor & Financial Planner

July 2012

Canadian Sector Performance	YTD	2011
Energy	-9.2%	-12.3%
Materials	-11.3%	-21.8%
Industrials	3.7%	2.0%
Consumer Discretionary	11.6%	-17.9%
Consumer Staples	7.9%	4.8%
Health Care	11.0%	49.6%
Financials	3.3%	-6.6%
Information Technology	-11.6%	-52.6%
Telecommunication Services	-0.6%	19.0%
Utilities	-1.6%	1.6%

Number Crunching

Year to date performance as of June 30th, 2012 of select currency and equity indices. All returns are in local currencies.

Equity Indices	YTD	2011
S&P/TSX Composite Index Total Return	-3.0%	-8.7%
Dow Jones Industrial Average	5.4%	5.5%
S&P 500 Index	8.3%	0.0%
NASDAQ Composite Index	12.7%	-1.8%
MSCI EAFE	-2.8%	-14.8%
Currencies (in Cdn $)	**YTD**	**2011**
US Dollar	-0.3%	-5.2%
Euro	-2.7%	-11.5%

Contact Us

Kimberly Foster
Associate
Kimberly.foster@rbc.com
Tel: (519) 747 – 0939

RBC Dominion Securities
95 King Street South
3rd Floor
Waterloo, ON N2J 5A2

Brad Davidson
bradley.davidson@rbc.com
Tel: (519) 747 – 1889

Chris Emms
chris.emms@rbc.com
Tel: (519) 747 – 1349
www.dpwm.ca

E-Newsletter!

We are pleased to now offer our quarterly newsletter in electronic format. If you would prefer this method of delivery please email us at chris.emms@rbc.com.

Source: RBC Dominion Securities

Tax Planning Update:

2012 RRSP Contribution Limit: 18% of earned income to a maximum of $22,970

Professional Wealth Management Since 1901

RBC Wealth Management
Dominion Securities