

GOOD LIVING: FINANCIAL PLANNING FOR THE HEALTHY, WEALTHY AND WISE.

Passing the bucks

Acting strategically helps ensure wealth passed to children stays with them

For prosperous baby boomers, sharing wealth with adult children is one of the great rewards of a life of hard work, but the results are not always as intended. Making these important decisions with the benefit of professional financial planning advice can help minimize the family's overall tax burden – and ensure the money is used wisely.

"There are many ways that parents can support their children's success," says Montreal-based senior investment advisor Elie Nour. "In some cases, parents have the option of transferring property to a corporation and electing to defer full accrued gains (in value), or to realize a portion of the gain, a strategy referred to as an 'estate freeze.' The main reason to freeze an estate is to freeze the value of specified growth assets such as stocks, bonds and real estate, so that future growth occurs in the hands of their children."

The traditional method of freezing an estate is to use a holding company or an inter vivos (living) trust. "It's important to keep in mind that, in setting up the estate freeze, there are ways of ensuring that parents still maintain control over the assets, while the growth of those assets passes to their kids. Moreover, parents can also use the trust or holding company as a means to secure a source of income after the estate freeze has been done," he says.

The simplest and least expensive form of estate freeze is the sale or gifting of investments when stock prices are low. "Rather than incorporating a holding company or setting up a trust, which is much more costly, parents can sell or give securities to their children in downside markets. Future growth in the value of the shares will not accrue to the parents. However, control of the securities is lost once the sale or gift is made," says Nour.

One of the hazards of transferring assets to adult children outside of a trust is the loss of control. In some cases, gifted assets can be considered family property in the case of a divorce; in others, children and parents may disagree on their management. "One of the most effective ways to guard against these eventualities," says Nour, "is a discretionary trust, which protects the assets from the beneficiaries' creditors and even, in some cases, from the beneficiaries themselves."

Estate freezes and trusts are sophisticated strategies that require legal advice to implement, but there are simpler options accessible to most parents.

For baby boomers with younger children, the humble RESP should still be the first focus of support, says Murray



PHOTO: CHRISTINNE MUSCHI

Montreal-based senior investment advisor Elie Nour says, "There are many ways that parents can support their children's success." When it comes to transferring financial or other valuable assets, acting strategically can help avoid undesirable tax consequences and other potentially negative impacts.

Baker, author of *The Debt-Free Graduate*. "It's an investment that just seems to get better every year. The lifetime limit has now been increased to \$50,000, and the government's contribution through the CESG has also increased."

One strategy to consider, he says, is to contribute to an RESP to maximize the government's contribution, and look at some other investment vehicles to round that out, such as a trust account.

Another more sophisticated strategy that Baker recommends is buying an investment property. "If your son or daughter is off to Queens in Kingston, for example, they can act as property manager as well as tenant, lining up roommates and collecting rent. You can pay them for those services, and if you drive up to see them and do some repairs, you may be able to write off some of those expenses as well."

He warns that the property should be a good investment on its own merits, because there is always a chance that your child may decide that particular university isn't right for them.

One common estate mishap, says Nour, is naming your estate as beneficiary, because of the serious tax implications of doing so. But the most frequent oversight is simply a failure to plan, creating a situation in which the estate potentially pays far more in tax than is necessary, assets are not distributed according to the parents' wishes, and conflict between siblings may last for years after the last parent's death.

"In general, parents prefer to have most of their assets transferred to their children while they are still living

rather than being eroded by taxes at death. Whatever strategies are applied, it is essential to update wills and

mandates on a regular basis, and to revisit planning strategies as regulations change," says Nour. ■

Involving kids breeds success

When it comes to helping adult children with their education, says Murray Baker, author of *The Debt-Free Graduate*, the most important strategy of all is to ensure that it is a partnership between parents and children.

One option for self-employed parents is to hire their children in their business. "In some cases, it may be a business that you eventually want your son or daughter to take over; it could be valuable experience as well as a good financial strategy."

Whatever you do, he says, "Sharing those responsibilities and having your son or daughter take an active role is essential. Whether you're paying them a salary to work in your business or contributing to RESPs or other investments, your investment will be more successful if you involve your child or children in the process. For example, if you pay them a wage during their high school years, you might set up an arrangement whereby part of that income goes into a savings account for university."

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RESP still best for funding education

The best option for funding a child's education, says investment advisor Elie Nour, is the traditional Registered Education Savings Plan (RESP) account. "Savings for a child's education grow on a non-taxable basis until funds are needed for college or university," says Nour. "There are many types of plans out there, so it is important to invest in a plan (that allows) your money to grow substantially over time. Many plans are loaded with hidden, extraneous fees and services charges, or offer 'guaranteed' returns that turn out to be very low over time."

Recent changes mean that the Canadian Education Savings Grant for the first \$500 RESP contribution in 2008 is:

- up to \$200, if your net family income is \$37,885 or less;
- up to \$150, if your net family income is between \$37,885 and \$75,769, or;
- up to \$100, if your net family income is more than \$75,769.

On amounts between \$500 and \$2,500, the CESG benefit is 20 per cent. Visit hrsdc.gc.ca for more information.