

Probate planning to minimize estate costs

Probate serves as proof to financial institutions, advisors and the land registry office that your will has been certified by the court and that your executor is authorized to represent your estate.

Some provinces vary the terminology used in the probate process. Ontario calls the cost of probate an "estate administration tax," while other provinces call the cost of probate a "fee" or a "tax." The actual grant of probate in Ontario is known as a "certificate of appointment of estate trustee." You should be aware of the terminology used in the province in which you live.[†] In this document we will refer to the cost of obtaining court certification as "probate tax."

[†] Note: The province of Quebec does not require probate for notarial Wills.

What is probate?

When you die, your Will gives your executor (estate trustee in Ontario, liquidator in Quebec) the legal authority to deal with your estate. Although your executor is legally entitled to do so, when the time comes to redeem or transfer certain assets registered in your name (such as investments with financial institutions, publicly traded shares and, in some instances, real estate), probate is usually required.

This process of obtaining court certification is known as probate. Probate taxes have been in existence since 1358, when they were introduced in England. In Canada, the first legislation dealing with this issue was enacted in 1793. In 1950, the legislation was amended, and the tax was designated as a "service fee." Although the services provided are identical from province to province (with the exception of Quebec), the cost varies under the laws of each province. A 1998 Supreme Court of Canada decision in the Eurig Estate case forced a change in provincial legislation to correct the situation.

This change, retroactive to 1950, reconfirmed probate taxes. (In that case, Mrs. Eurig disputed the probate fee of \$5,710 charged on her late husband's estate and successfully argued before the Supreme Court of Canada that the fee was actually a tax.)

Example

As you can see, the cost of probate varies from province to province. As an example, if you have an estate valued at \$625,000 that is subject to probate, your estate in Prince Edward Island would be charged probate taxes at a different rate than in Ontario, British Columbia or Quebec.

Value of estate: \$625,000

Prince Edward Island		
First	\$100,000	\$400
Remaining	\$525,000	\$2,100
Total	\$625,000	\$2,500
Ontario		
First	\$50,000	\$250
Remaining	\$575,000	\$8,625
Total	\$625,000	\$8,875
British Columbia		
First	\$50,000	\$350
Remaining	\$575,000	\$8,050
Total	\$625,000	\$8,400
Quebec (notarial Wills only)		
First		\$0
Remaining		\$0
Total		\$0

For more information on Wills, please ask for a copy of our Tax & Estate InfoPage, *Structuring an effective Will*.

What property is included when calculating probate tax?

The cost of probate is generally based on the fair market value of all property that you own at the time of your death.

Some assets are excluded from valuation for probate purposes. These include:

- Assets registered in joint names and which, on the death of the first person, automatically pass to the survivor(s) by right of survivorship
- Real estate you own that is located outside the province of residence
- Life insurance and, in most provinces, RRSP, RRIF and TFSA holdings for which you have named a beneficiary (other than your estate)

Calculating probate taxes

Probate tax rates by province (as at April 30, 2014)*

Province	Estate Size	Fee/tax
British Columbia	Under \$25,000	No fee
	\$25,000 - \$50,000	\$200 + 0.60%
	Over \$50,000	\$350 + 1.40%
Alberta	First \$10,000	\$25
	\$10,001 - \$250,000	Progressive to \$300
	Over \$250,000	\$400 (maximum)
Saskatchewan	All estates	0.70%
Manitoba	First \$10,000	\$70
	Over \$10,000	\$70 + 0.70%
Ontario	First \$50,000	0.50%
	Over \$50,000	\$250 + 1.50%
Quebec	Notarial Wills	No fee
	Holograph/witnessed	\$104
New Brunswick	First \$5,000	\$25
	\$5,001 - \$20,000	Progressive to \$100
	Over \$20,000	0.50%
Nova Scotia	First \$10,000	\$83.10
	\$10,001 - \$100,000	Progressive to \$973.45
	Over \$100,000	\$973.45 + 1.645%
Prince Edward Island	First \$10,000	\$50
	\$10,001 - \$100,000	Progressive to \$400
	Over \$100,000	\$400 + 0.40%
Newfoundland and Labrador	First \$1,000	\$60
	Over \$1,000	\$60 + 0.50%
Yukon	First \$25,000	No fee
	Over \$25,000	\$140
Northwest Territories	First \$10,000	\$25
	\$10,001 - \$250,000	Progressive to \$300
	Over \$250,000	\$400 (maximum)
Nunavut	First \$10,000	\$25
	\$10,001 - \$250,000	Progressive to \$300
	Over \$250,000	\$400 (maximum)

* These rates are quoted for use in estimating probate costs. Actual costs of probate may vary.

Example

John Russell owned his own private company, a house valued at \$250,000 (no mortgage), a bank account with a balance of \$2,500 and an investment portfolio valued at \$360,000. At the time of his death, John's private company shares were worth \$525,000. John was a widower, with no dependents.

In this example, Ontario probate tax is reduced by \$7,875 when multiple Wills are used:

Single Will	
House	\$250,000
Bank account	\$2,500
Investments	\$360,000
Private shares	\$525,000
Gross estate	\$1,137,500
Probate calculation	
First \$50,000	\$250
\$15 per \$1,000 on balance	\$16,320
Total probate tax payable	\$16,570

	Primary Will	Secondary Will
House	\$250,000	
Bank account	\$2,500	
Investments	\$360,000	
Private shares		\$525,000
Gross estate	\$612,500	\$525,000
Probate calculation		
First \$50,000	\$250	No probate
\$15 per \$1,000 on balance	\$8,445	No probate
Total probate tax payable	\$8,695	\$0

You can see why reducing probate taxes through the use of various planning techniques is an important part of effective estate planning.

Probate tax planning

Multiple Wills

Probate taxes are usually calculated on the gross value of the estate. This means that debts (with the exception of mortgages or other claims against real estate) are not deducted when calculating the estate value. This can have a big impact if there are more debts than assets. For example, if your estate has a gross value of \$500,000 and a debt of \$300,000, of which \$100,000 is a mortgage on a house, probate taxes would be calculated on \$400,000, and not on the \$200,000 in net assets. If probate is required for any part of your estate, the entire estate value must be used to calculate the cost of probating the Will, even if some of the estate assets do not require probate to effect a change of ownership (e.g., shares in a private company).

In the Granovsky Estate case, the use of multiple Wills was validated by the Ontario Superior Court of Justice. Under this practice, a primary Will is used to deal with assets subject to probate. A secondary Will is drawn up to deal with assets that do not require probate (e.g., shares of a personally owned company or valuable personal property such as paintings). This method requires you to draw up two Wills limited to specific property, with an executor named in each. Upon your death, your executor would submit only the primary Will for probate, and the probate tax calculation would be based on the assets governed by that specific Will. This strategy is worth considering for estates of significant value (say, \$500,000 or more) where the savings in probate taxes would justify the additional time and expense of dealing with more than one Will.

If you are considering using multiple Wills, make sure you get legal advice. Using multiple Wills to avoid probate tax has been allowed only by the court in Ontario (in Granovsky), and was based on Ontario statutes. It is up to the courts in other provinces whether they wish to follow this Ontario judgment. (The use of multiple Wills may be permitted in British Columbia, provided that each Will appoints a different executor.) Be aware that each province has its own statutes that will affect the application of multiple Wills in your situation.

If you are using multiple Wills, it is important to include a clause in each Will that specifically describes the nature and date of the Will being replaced (primary or secondary). It is also critical that your Wills are kept up to date because a change in assets can significantly influence your estate plan. If you are not sure whether a specific asset is subject to probate, it is wise to include that asset in your primary Will. Including such an asset in your secondary Will in error would subject the secondary Will to probate. This would defeat the objective of multiple Wills, namely saving probate taxes.

Named beneficiaries

Most provincial/territorial insurance legislation allows for direct payment of the proceeds of a life insurance policy to a named beneficiary upon the policyholder's death. Insurance designations can be made either by naming a beneficiary on the policy, or in your Will. As long as there is a named beneficiary (who, in the case of an individual, is still alive at the time you die), the insurance proceeds are excluded from the value of your estate. In addition to insurance policies, in most provinces, you can name beneficiaries for registered pensions, RRSPs, RRIFs and TFSAs.

What happens if you name a beneficiary on an insurance policy, pension, annuity or segregated fund and your intended beneficiary dies before you do? Unless you have named an alternate beneficiary, the value of the designated asset will generally be included in your estate - and be subject to probate tax. In case you name more than one beneficiary, the proceeds would be shared among all beneficiaries who are alive at the time of your death. Many companies also allow you to name a first choice of beneficiary (called primary) and to also name a beneficiary who will only receive the proceeds if the primary beneficiary predeceases you. The beneficiary in this case is called an alternate or contingent. If you want more control over the distribution of the proceeds, you can arrange for the proceeds to be paid into your estate and dealt with according to instructions in your Will. In that case, the proceeds would be subject to probate tax.

Another option is to set up an insurance trust to receive life insurance proceeds on behalf of your beneficiaries. This type of formal trust is most often created by a declaration in your Will. Because the insurance policy pays directly to the trustee

named in your Will, the proceeds are not considered to be part of your estate for calculating probate taxes. If you are considering using an insurance trust, it is important to discuss this with your legal advisor.

Although probate planning is important, there are other factors that you should consider to help minimize probate taxes. These include making sure there is enough cash (or other liquid assets) in your estate to pay income or capital gains taxes. There are also family law and inheritance issues. The cost of ignoring general estate planning issues may be greater than the probate taxes saved.

For more information on the joint ownership strategy, including potential tax pitfalls, please see our Tax & Estate InfoPage, *Joint accounts*.

Joint ownership

A common method of avoiding probate tax on death is to hold property jointly. This is known as "joint tenants with right of survivorship." It is not available in Quebec. Assets held in this manner automatically pass to the surviving joint owner or owners. The assets do not form part of the estate and are not subject to probate tax.

Real estate outside the province

Real estate outside your province that is owned by you at the time of your death is not subject to probate tax with the rest of your estate assets. However, with the exception of Quebec, the jurisdiction where the real estate is located may impose its own probate taxes on that property. If you have a large estate and live in a province like Ontario or British Columbia where the probate tax rates are high, Yukon or Quebec may seem like the best place to own property for probate purposes.

For more information on gifting, please see our Tax & Estate InfoPage, *Estate tax minimization through inter-vivos gifting*.

Gifting

You may reduce the value of your estate that is subject to probate by making gifts while you are alive. There is no gift tax payable in Canada although there may be income tax consequences.

The tax rules state that if you dispose of any property (by selling it or giving it away) and there are no proceeds (or the proceeds are less than the fair market value of the property), you will be deemed to have received an amount equal to the fair market value of the property. This means that if you give away assets, you may have to report a capital gain on the property. If you are considering gifting property, talk to your advisor to make sure you fully understand the legal and tax implications.

For more information on alter ego or joint partner trusts, please ask for a copy of our Tax & Estate InfoPage, *Tax planning using alter ego and joint partner trusts*.

Revocable living trusts ("alter ego" and "joint partner")

Generally, when assets are transferred to a trust for estate planning purposes, the change in ownership triggers a taxable deemed disposition. This means that, for tax purposes, the assets are treated as if they were sold by you and then purchased at fair market value by the trust. As a result, any deemed gain realized from the transfer becomes taxable to you.

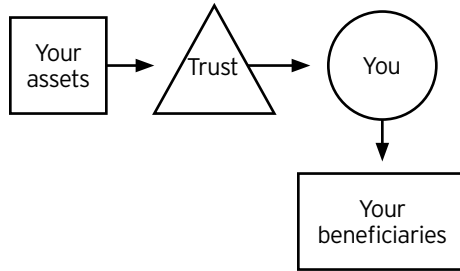
There are many reasons why you might want to transfer assets to a trust. For example, you may be able to save on probate taxes on these particular assets by changing the registered ownership from your own name. In doing so, the assets are no longer considered to be part of your estate at the time probate taxes are calculated. Using a formal trust lets you benefit from the income during your lifetime, but have the assets distributed to other beneficiaries after your death.

Another benefit of using a trust is that it offers a level of confidentiality that you cannot achieve through a Will. By law, a Will becomes a public document once it has been through probate.

Regardless of your motivation for setting up a trust, you should be aware that the transfer of assets to the trust may trigger an immediate income tax liability to you if there are significant unrealized gains.

Alter ego trusts

Income tax on deemed disposition of property can be delayed until your death, when the assets can be paid out of the trust to your beneficiaries. No probate tax is payable on those assets.



Under certain circumstances you can set up a trust to help meet your planning objectives while deferring the tax consequences associated with transferring assets to a trust. An alter ego trust allows you to transfer your assets into this trust without triggering an immediate taxable disposition (unless you, as transferor, make an election to have the disposition take place at fair market value). Upon your death, the assets in the trust are deemed to be disposed, and the taxes payable are determined at that time. An alter ego trust is simply a living trust with certain conditions. It must be set up by individuals who are Canadian residents and at least age 65. The terms of the trust must ensure that you are entitled to receive all of the income from the trust during your lifetime. As well, during your lifetime no one else is entitled to receive or have the use of any income or capital of the trust.

Joint partner trusts

If you want to transfer all of your assets to a trust not just for yourself, but also for your spouse or common-law partner, you can use a joint partner trust. As with the alter ego trust, there will be no taxable disposition at the time assets are transferred into this trust - unless you make an election to transfer the assets at fair market value and trigger the disposition. On the death of both you and your spouse or partner, the assets in the trust will be deemed to be disposed of at fair market value. Taxes will then be payable from assets within your estate.

The requirements for setting up a joint partner trust are that it be set up by Canadian residents who are at least age 65. You and your spouse (or common-law partner) must be entitled to receive all of the income from the trust until both of you die. Also, during the time the trust is in effect, no one else is entitled to receive or have access to any income or capital of the trust.

Once assets have been placed in either an alter ego or joint partner trust, those assets no longer form part of your estate and, therefore, will not be subject to probate tax. If you are considering these kinds of trusts, it is essential that you obtain legal advice.

Consider your options

Probate planning is an important part of estate planning, but it should always be considered in conjunction with effective tax planning and other general estate planning priorities. Talk to your advisor to make sure your estate plan satisfies all your financial and personal concerns.

Additional information

For more information about this topic, contact your advisor, call us at 1.800.874.6275 or visit our website at www.invesco.ca.



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