Estate Planning

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#1 Principal Residence

Capital gains derived from the transfer or sale of a principal residence are not taxed. However, an investor can only have one principal residence for the entire family unit. For any property that is held in joint tenancy, the ownership remains with the surviving spouse and upon the death of the surviving spouse, the will dictates the distribution of the property.

You need to ensure adequate liquidity when preparing your estate plan to make sure that all the costs arising out of your property tax deferral program are covered. It helps in reducing the burden of repayment on the beneficiary when the estate is transferred. When children are not in agreement with the way you wish to dispose of your property, you can consider estate equalization and use your assets and cash as a replacement to the interest.

#2 Recreational Property

The capital gain derived from the disposition of any recreational property is taxed. Tax is deferred only if the property is held in joint tenancy, but if it is left to the surviving spouse in the will, it will attract tax on transfer.

If the property is left outright to the surviving spouse who remarries it may end up in the hands of an unintended beneficiary. A spousal trust can be created to avoid this scenario and to avoid tax on capital gains. A spousal trust allows the testator to designate the inheritors of the property when the surviving spouse dies.

#3 Real Estate Investments

Transfer, sale or distribution of property results in capital gain or loss depending on the condition of the property and its market value. Capital cost allowance can be claimed if the property in question is rental. If the market value of the rental property exceeds the capital cost, the tax is payable on the recaptured value. If the value is less than the capital cost, it will result in a loss which can be deducted against other gains.

The real estate properties that are doing well should ideally be transferred to desired beneficiaries or surviving family members. Any liquidity that is required to pay taxes should also be funded in advance to ensure that the inheritors don't have to face any financial difficulties in future. Estate planning experts are of the opinion that investing in commercial property through a holding company can prove to be highly beneficial when the income is split. If needed, you can also buy shares of the holding company through a family trust.

#4 Ways to Overcome Liquidity Crisis

When a real estate investor dies and the property is disposed of, the capital gains arising out of the disposition may trigger taxes which can be problematic for the grieving family. This is because property cannot be sold off as easily as other valuable assets. Solving the liquidity issues beforehand will save the estate executors from tax implications, especially if the real estate market is unfavorable or constantly fluctuating.

Life insurance proves to be the most feasible and practical investment for providing the necessary liquidity when the circumstances are critical. The benefits of investing in a joint life insurance policy are: the cash in the estate remains tax-free for a few weeks; the will is not subjected to probate when the policy has a beneficiary named; the proceeds of the policy remain protected against the claims of future creditors.

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