Avoid a legacy of taxes

Seven ways to help minimize taxes on your estate.

AMERICAN INVENTOR AND POLITICIAN Benjamin Franklin wrote, "In this world nothing can be said to be certain, except death and taxes."[1] And while the thought of death can be unpleasant, so can the prospect of leaving your family a large tax bill. With a little planning, you can help minimize the taxes on your estate once you've passed on. Here are a few tax-saving strategies to consider.

Leave assets to your spouse

Assets left to a spouse or spousal trust (a trust that entitles income to a spouse) are considered disposed of at the deceased's adjusted cost base (the ACB is the amount of your investment that has already been taxed). The tax is deferred until the surviving spouse (or trust) sells the assets, or until your spouse's death.

Give assets away

If you know that you won't need certain assets in your lifetime and have already designated heirs, you may want to consider making those gifts while you're still living. Giving assets away when you're alive can help your estate avoid a potential tax bill. Not to mention you get the joy of seeing your loved ones put your gift to use.

For tax purposes, however, giving assets away is generally considered a disposition. This means that if the fair market value at the time of the gift is greater than its ACB, the result is a tax bill. For example, if the fair market value is $1,000 and the ACB is $700, you would pay tax on a $300 capital gain. This strategy works best if the assets you're giving away are likely to appreciate in the future.

Choose beneficiaries with a tax strategy in mind

If tax deferral is the priority, consider leaving assets that have appreciated in value to your spouse first. If you're planning to leave assets to others, it may be more strategic to pass on tax-friendly assets, such as cash, guaranteed interest contracts (GICs), money market funds or assets that have not greatly appreciated in value since you acquired them.

[1] Albert Henry Smyth, *The Writings of Benjamin Franklin, Vol. X (1789–1790)* (New York: Macmillan, 1907), p. 69.

Make the most of exemptions

When it comes to tax, it can pay to take advantage of exemptions. The two most common are:

The principal residence exemption: This can be used to offset capital gains on one property you own. This could be your home, but it could also be a cottage or other second property that you ordinarily inhabit (rental properties do not qualify).

The enhanced capital gains exemption: This can be used to offset up to $800,000 (indexed for inflation after 2014) of capital gains on your shares in certain private companies, a qualifying farm or fishing property.

Donate to charity

You can leave part of your estate to charity (usually via your will). Your estate will be able to claim a donation tax credit for the fair market value of the gift.

File multiple tax returns

In the year of death, up to four tax returns can be filed. A claim can be made for some personal tax credits, such as the basic personal amount, on each of the returns filed, effectively multiplying the number of credits claimed. In addition, your estate would benefit from the lower graduated tax rates more than once in the year of death.

Buy life insurance

Life insurance can assist in funding your estate's eventual tax liability. This helps ensure that your heirs will be left with as much of the estate proceeds as possible, and protects your assets from being liquidated in order to pay your estate's tax bill.

If you are looking to minimize your estate's tax bill and wish to leave more assets to heirs, planning now can save a lot of money and difficulty for your loved ones. Talk to your advisor to see if any of these tax-saving strategies can help you achieve your financial goals. Your advisor can review your estate plan and help identify assets that could present tax-planning opportunities. ■