CI ASSANTE WEALTH MANAGEMENT

WELL-ADVISED

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WHY YOU SHOULD WATCH OUT FOR PHISHING, SMISHING AND VISHING

You may think you'll never fall victim to phishing attacks, but new technologies are making online and phone scams more dangerous. Also, other family members could be at risk.

Phishing is the umbrella term for scams that fraudsters attempt through your computer or devices. Smishing, or SMS phishing, refers to text message scams. Vishing is voice phishing—scam attempts over the phone.

Unfortunately, a great many attempts at all kinds of fraud have been and continue to be successful. In the first six months of 2023, the Canadian Anti-Fraud Centre received 32,458 reports of fraud attempts. Of those, 21,299 people fell victim to the scams. They lost a combined amount of more than $283 million—and that only represents reported cases.

THE NEED FOR VIGILANCE

Cyber criminals are making existing methods appear more authentic and introducing new scams. In some cases, they use information from social media profiles to personalize their phishing email messages. Smishing attempts can send texts that seem to be from your own bank, mobile company or another provider. They may even include a QR code that takes you to a malicious website, a scam known as quishing. New technologies used in vishing create a caller ID to make the phone call appear legitimate.

ALERT YOUR FAMILY

It's a good idea to make sure your spouse, children and parents are also being cautious. Think before clicking on a link. Be certain any text message is from a known contact. Otherwise, don't respond, even if you're instructed to text "stop" or "no" to stop receiving messages. Don't scan just any QR code. Don't give personal or financial information over the phone; look up the organization's number and call them back.

Overall, stay alert—it only takes one lapse to fall victim to fraud. ■

Concerned about rising interest rates?

The government has raised interest rates to help rein in higher inflation, and you may be wondering how higher rates might affect your financial situation. Homeowners with a variable-rate mortgage or renewing a fixed-rate mortgage may need to adjust their budgets. Lines of credit, including home equity lines of credit, are more expensive. For investments, higher rates are good for guaranteed interest investments and high-interest savings accounts, poor for bonds and mixed for stocks. If rising rates or any economic issue ever causes you concern, please contact us to discuss it and, if necessary, make changes to your wealth program.

HOW TO PAY LITTLE OR NO TAX ON RESP WITHDRAWALS

Withdrawals from a Registered Education Savings Plan (RESP) are different than those from other registered plans. With an RESP, some withdrawals are taxable, while others are not.

This means you need to do some tax planning when you withdraw funds.

YOUR RESP HAS TWO POOLS

An RESP account consists of two pools of funds. One pool is exclusively your original contributions, from which you make non-taxable withdrawals. You can withdraw from this pool anytime, whether or not it's for education costs.

The other pool is composed of Canada Education Savings Grant (CESG) funds, any other provincial grant funds and plan earnings. Withdrawals from this pool, called educational assistance payments, are taxable to the student. It's very important to use up this pool by graduation. Otherwise, you will be required to return the remaining grant money to the government and could pay tax and a penalty on plan earnings.

Whenever you make an RESP withdrawal, you specify how much to take from each pool.

TAX-SAVING STRATEGIES

Here are strategies to use in different situations to minimize or eliminate tax on RESP withdrawals.

WITHDRAWALS OF CONTRIBUTIONS

- Non-taxable withdrawals from a pool of original contributions
- Sometimes called a refund of contributions or post-secondary education payment

EDUCATIONAL ASSISTANCE PAYMENTS

- Withdrawals from a pool of CESG funds, provincial grant funds and plan earnings
- Taxable to the student

When income is low, take educational assistance payments. Some students never have to worry about paying taxes on RESP withdrawals. They can take educational assistance payments and not owe tax because that amount plus their annual earned income is less than their basic personal amount and tuition tax credit. They can use up that pool, and then take withdrawals of contributions.

When income is high, take withdrawals of contributions. A student could be in a taxable position if they have a paid internship, co-op work term or well-paying spring and summer job. In such a year, taking withdrawals of contributions means your child won't pay tax on RESP withdrawals. Just be aware that this strategy is only effective if you'll still be able to take all available educational assistance payments by graduation.

An exception to the rule. What if education costs will be much lower than expected? Perhaps you accounted for residence and off-campus housing costs, but your child chooses a local university and lives at home. Or you covered expenses for a university degree and your child takes a two-year college program. In this case, you may be better off taking educational assistance payments even if your child must pay tax on the withdrawals. You want to use this pool. Any tax at your child's rate is better than forfeiting grant money and facing a greater tax bill later. Remember that funds remaining in the pool of original contributions can be withdrawn at any time tax-free. ■

WHAT HAPPENS IF RESP FUNDS REMAIN?

Unused funds could remain in an RESP if the child doesn't pursue or complete post-secondary education or if they graduate without needing all of the funds. If that's the situation, you have several choices.

Support another child. If you have one or more other children under 21, the remaining funds can help cover their education costs, either through a family RESP or by transferring the funds to another child's individual RESP.

Keep it open. You can keep an RESP open for 35 years after it was established, while investments grow tax-deferred—just in case the child decides to start or continue their education in the future.

Close the RESP. If you choose to close the plan, you must return any grant money to the government. You get back the value of your original contributions tax-free. When you receive the remainder, which is the plan's earnings, the tax is considerable. It's called an accumulated income payment and is taxed as regular income, then subject to a 20% penalty (12% for Quebec residents). However, you are allowed to transfer up to $50,000 of the accumulated income payment to your or your spouse's Registered Retirement Savings Plan (RRSP). That defers the tax as regular income and avoids the penalty. You must either have contribution room available or create room by holding off on your RRSP contributions until you can make the transfer. ■

WAYS TO GIVE TO GRANDCHILDREN

Giving a financial gift to a grandchild can be tremendously satisfying, knowing you're helping to make a difference in a loved one's life. The first step is choosing when to make a gift.

You can make financial gifts to grandchildren while you're living or upon your passing. If you give now, you're able to experience how you're helping out. Also, depending on the grandchild's age, they may be receiving the gift when it makes the most difference—such as when buying a home. When funds are given upon your passing, you ensure that you first provide for your own lifetime retirement income before making financial gifts.

GIVING NOW

You might give a large gift during your lifetime, or give smaller gifts now and also leave your grandchild an inheritance.

Education savings. Many grandparents want to contribute to a grandchild's education costs. You can open a Registered Education Savings Plan (RESP) for your grandchild or give cash to the grandchild's parents that they contribute to their child's RESP. Another option is to dedicate your Tax-Free Savings Account (TFSA) to education savings. Yet another choice is to open an in-trust account[1] with your grandchild as the beneficiary. It can accumulate funds that will belong to your grandchild at the age of majority.

A down payment. You could also dedicate your TFSA or use an in-trust account[1] as a vehicle that will help your grandchild make a down payment on their first home. Other options are gifting cash for the grandchild to use for the down payment or contribute to their First Home Savings Account (FHSA).

Other uses. When a grandchild is young, you might pay for their summer camp or orthodontic costs. Once the grandchild is an adult, you could gift cash that a grandchild uses to contribute to their TFSA or Registered Retirement Savings Plan (RRSP), or for any other purpose.

LEAVING AN INHERITANCE

You may want to leave an inheritance by naming a grandchild as a beneficiary in your will or as the beneficiary of a life insurance policy or registered plan, such as a TFSA or Registered Retirement Income Fund (RRIF).

When the grandchild is of legal age. If the grandchild has reached the age of majority when they receive the funds, this method is straightforward. In the case of a life insurance policy or registered plan, a grandchild has the benefit of receiving the proceeds directly—without the delays of probate and estate administration.

When the grandchild is a minor. A minor cannot receive the proceeds of a life insurance policy or registered plan; the funds would be managed by a provincial authority until the individual reaches legal age. To avoid this situation, a common practice is to create a trust in your will to hold these assets. You name a trustee to manage the assets, and you determine when the grandchild receives the funds and whether the amount is transferred in a lump sum or distributed in a series of payments over time. Depending on the province, you may be able to give a smaller inheritance to a minor grandchild that their parent can manage until the child reaches legal age—which means no trust is required. For example, a parent can manage a minor child's inheritance of less than $10,000 in British Columbia and Nova Scotia, less than $25,000 in Alberta and less than $35,000 in Ontario.

Rules in Quebec. In Quebec, you can name a grandchild as the beneficiary of a life insurance policy, but you can only name a beneficiary of a registered plan if the investments are in segregated funds. Otherwise, a registered plan's proceeds go to the estate, and you can set out in the will how those funds are to be distributed. This process is straightforward if the grandchild is of legal age. If the proceeds of a life insurance policy or registered plan are left to a grandchild who is a minor, those proceeds would be managed by the minor's parents until the individual reaches age 18 and can receive the funds. Instead, if you want control over how the proceeds are invested and when they'll be distributed, you can establish a trust and provide directions in your will.

When giving a financial gift to a grandchild, especially one who is a minor, it's advisable to talk to us and most often also a lawyer and tax specialist. ■

[1] An in-trust account is not applicable in Quebec.

PRESERVING ESTATE ASSETS FOR YOUR HEIRS

The first things that come to mind when you think of estate planning might be your will, beneficiaries and executor or estate administrator. However, another key element is planning for the tax liability on your estate's assets.

The tax liability could be significant. Take the example of an estate that includes $300,000 in a Registered Retirement Income Fund (RRIF), $100,000 of equity investments in a non-registered account and a vacation property valued at $600,000. That's $1 million until the Canada Revenue Agency (CRA) receives its share. Say there are capital gains of $40,000 on the non-registered investments and $360,000 on the vacation property. Based on a 50% marginal tax rate, the tax owing is $10,000 on the investments and $90,000 on the vacation property. Tax on the RRIF balance, considered income, is $150,000. The total tax bill is $250,000.

Planning for the tax liability can help ensure that your heirs receive what you wish for them. Without proper planning, an estate administrator may need to look at selling a treasured asset—even a vacation property—to cover the tax bill.

COVERING THE TAX LIABILITY

Tax on estate assets is usually covered by one or more of the following methods, with the choice depending on your personal preference and financial situation. Here's why each one may be suitable, along with concerns to consider.

Using cash on hand. If an estate has enough liquidity, drawing from cash assets can be the easiest way to cover the tax. However, if the tax liability is significant, available cash may fall short. Also, that cash may end up being a source of retirement income.

Dedicating a savings fund. In your working years, you can save to build a fund specifically designed to offset taxes on estate assets. A Tax-Free Savings Account (TFSA) could be ideal. A challenge is remaining disciplined—it's a tempting way to cover home renovations, vacations abroad, a child's wedding or the down payment on a child's first home.

Selling certain assets. A common solution is for the estate administrator to liquidate enough assets to cover the tax payable, leaving the remaining assets for heirs. However, at the time the tax must be paid, the particular asset's market value could be less than its expected value. Another concern is sacrificing an asset with high growth potential or sentimental value.

Purchasing life insurance. You can purchase permanent life insurance in an amount sufficient to cover the projected tax bill, with your estate as the beneficiary. This solution preserves estate assets from the time you pay your first premium. However, you need to assess the cost over time—depending on your age and health, life insurance may or may not be cost-effective. ■

HAVE YOU PLANNED FOR DIGITAL ASSETS?

If you haven't accounted for your digital property in your will or another document, you're not alone. This is often overlooked when planning an estate.

Digital property can be broadly categorized as either personal or financial. Personal assets can include social media accounts, photo and video collections, blogs and personal websites. Digital financial property may include bank and investment accounts, a PayPal account, a cryptocurrency wallet, online bills, subscriptions, business websites and tax records.

CONSIDER THE CONSEQUENCES

When digital property is not part of an estate plan, numerous problems can arise. For example, any online bill payments will continue. Financial assets could be lost. Your digital record could be hacked for financial fraud or even identity theft. Furthermore, your family won't be able to access treasured photos with sentimental value.

HOW TO PREPARE

The first thing to do is to make an inventory of all your important personal and financial digital items and accounts. You'll also need to record all associated login information and passwords and keep them updated. State your wishes for any items where relevant, such as closing a social media account or making it a legacy account.

You should appoint an administrator to manage your digital property or assign the duties to your current estate administrator. Either way, you can record your choice in a clause in your will. The inventory and passwords should remain in a separate document because a will can become a public record. You can keep this digital property document in a locked cabinet or in password-protected electronic storage. ■

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