

THE CASE OF THE FOURTH RING

The title sounds like an old school detective story. But creating an estate plan can require some investigation and maybe even a little detective work.

It is critical to understand the assets that your estate will distribute, the taxes that may be owing upon your death, and the strategies that can be employed to achieve your goals. The first place to start in your investigation is a net worth statement to capture all of your assets on paper. From this you can begin to formulate your estate distribution plan. A well drafted will along with power of attorney documents should be created to properly reflect your intentions. These very important legal documents have significant power in achieving estate planning goals.

Once the net worth statement is compiled, the next step may be to communicate your wishes to your heirs and [listen to their reactions](#). This is the detective work.

Communication with family can be a challenging and daunting task. Even broaching the topic can create stress for your family members. First, no one likes to think about the world after you are gone. Second, discussions of gifts at death tend to bring out the worst in families, with too much emphasis put on value, equality and pre-conceived expectations. So how can we ensure the most efficient transfer of assets, both valuable and sentimental in nature, to our heirs?

Many parents will ask their children: When I die, which china set would you like to receive as your gift? There is a good chance the children will not be able to respond with an actionable answer. For fear of hurting your feelings, will Susie honestly tell you that she always hated that piece of art? Probably not, but her outspoken brother might lay claim on the most expensive piece of jewelry.

Here is the case of a less than successful and hypothetical story to explain:

Alice was in her 80s, still living independently in her home and enjoying fairly good health. Since her husband, John, had passed away last year, she decided to work with her trusted Advisor to create a comprehensive estate plan to ensure that all of her affairs were in order.

For the purpose of her will planning, she created a list of all of her assets, including the value of her house, her Registered Retirement Income Fund (RRIF), her investment assets and personal items, like jewelry and artwork.



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This “net worth statement” would provide the basis of her estate plan, but she then had to decide how to transfer these assets to her four adult children, Joe, Susie, Fred and Millie.

Alice felt that the real estate and investment assets were fairly easy to deal with in her estate; her house would be sold and the proceeds, along with all investment assets, would be distributed equally to the children after taxes. However, she really struggled with the list of personal items and jewelry. Some of the jewelry and artwork had great sentimental value, including an original oil painting by John’s deceased father.

Alice felt that, as the oldest child, Joe should receive the most valuable item, John’s gold ring. Surely Susie would like to receive her mother’s wedding ring. With Fred’s fine arts degree, the artwork must go to him. Alice wondered how she could ensure that all the children were treated equally.

She decided to start with the jewelry:

- Her deceased husband’s gold ring would be gifted to her oldest son, Joe.
- Her wedding ring would be gifted to her oldest daughter, Susie.
- John’s pinky ring would go to Fred.
-and then.... Alice began to fret about a gift to her youngest child, Millie.

How could she possibly make things equal and fair? She decided to go to the mall and buy Millie a very pretty topaz ring to be part of her inheritance, the fourth ring!

Case solved

If Alice had asked her children for their opinions, she may have found out that Millie always loved Grandpa’s oil painting, while Fred had little sentimental attachment to it. Joe, as a professional engineer, would have preferred to receive his father’s iron pinky ring.

The key to solving this mystery is in the communication with the family prior to death. In Alice’s case, each child did not necessarily have to receive a ring, or an item of equal value. Better that each heir received a gift that made them happy.

The gift of communication with heirs goes much further than this. You can help your family during a time of grief and mourning by providing clear communication of your wishes in your will as well as through a personal memorandum or letter of intent. A letter of intent, while not legally binding like a will, provides your heirs with a description of your goals and wishes on death.

Perhaps Alice could have made these gifts of sentimental items during her lifetime instead of waiting until her death. This would have provided Alice with the joy of watching her children enjoy their gifts during her lifetime.

However, caution should be taken when considering a gift during your lifetime for the following reasons:

- A gift is irrevocable: once you have given something or some power away, you can’t get it back.
- Decision making is lost: where an asset is gifted to another person, you will no longer have a say in the maintenance or control of that asset.
- Your financial wellbeing is paramount: don’t gift assets too soon for fear that you may need financial resources later in life.
- Consider tax implications: a gift of an asset that has grown in value over time may result in a tax liability as it is considered a deemed disposition at fair market value when the gift is made.

Conclusion

When creating your estate plan, it is critical to understand the assets that your estate will distribute, the taxes that may be owing on your death, and the strategies that can be employed to achieve your goals. Most importantly, communicate with your heirs to ensure that your gifts will be successfully appreciated as you intend.

If you would like more information on will planning and taxes on death, contact your Richardson GMP Advisor for complimentary education articles on these topics.

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