

Inherit the world

What are the tax considerations when receiving an inheritance, from within Canada and beyond?

Canadian tax laws surrounding inheritances can be confusing. And the uncertainty seems to compound when the inheritance is from a family member who lives in another country, as is

the case for many immigrants.

Here's the good news: the receipt of an inheritance does not constitute taxable income, so it can flow to the beneficiaries without them

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having to pay any direct taxes.

Not so good news: the inheritance may already have been reduced by taxes levied against the assets of the deceased in the estate. In Canada there is a deemed disposition of assets on death (unless passed on to a surviving spouse). This triggers taxable income of 50 per cent of the appreciation of assets above their original cost.

Probate fees are also payable on

the value of assets in the estate in most provinces; in British Columbia, the probate fee percentage is 1.4 per cent and in Ontario, 1.5 per cent.

Now if we're talking offshore assets specifically, remember that Canadian residents are taxed on worldwide income. So, as the new owners of a foreign property or business, they have an obligation to report the income and capital gains of that asset to the Canada Revenue Agency. The cost base of the asset for tax purposes would be the market value of the as-

set when inherited. If there is already tax being paid on the asset in the other country, then there is normally an opportunity to offset the offshore tax against the Canadian tax due.

If you expect a substantial offshore inheritance (say \$1 million) from a family member who's never resided in Canada, then it's possible to structure the flow of those assets into an offshore trust located in a tax-free or low-tax jurisdiction. You can then receive the income and capital gains as tax-free capital. There's one catch:

the deceased's will must make provisions for the establishment of the offshore trust. This strategy can result in significant tax savings. **CI**

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