INVESTING

Steadyhand hikes fees on four mutual funds to cover cost of HST

Vancouver-based mutual-fund company **Steadyhand Investment Management Ltd.** has long strived to keep its fees below industry averages but says it has been forced to hike fees on four funds because of the added cost of the HST. The firm had a "one simple fee" policy that kept fees fixed and had been absorbing the extra cost of the HST since its introduction in British Columbia and Ontario in July 2010. The higher fees will take effect on Jan. 1, 2012 and range from 0.04% to 0.08%. Funds affected are Steadyhand Income Fund, Steadyhand Equity, Global Equity and Small-cap Equity Funds. Clients with more than $100,000 or who have been with the firm for five years receive a fee reduction. *Jonathan Chevreau, Financial Post*

PERSONAL FINANCE

CHLOE SUCHMAN FOR NATIONAL POST

There are advantages to sharing inheritance while you are still alive

GIVING IT AWAY SOONER, NOT LATER

GARRY MARR
Family Man

Everybody knows you can't take it with you, but the bigger question is when should you give your money away and how much should it be? It's a question wrapped up in emotions, philosophy and financial planning.

It's no small issue with the passing of inheritance to the next generation expected to be the largest in history, with some estimates putting it at more than $1-trillion. Who gets that cash?

A survey done a few years ago by Royal Bank of Canada found 57% of Baby Boomers in Canada have or expect some inheritance. Those same Boomers are now grappling with the question of when do they hand that money to their kids, with 61% at the time of the survey saying they planned to pass on money during their lifetime.

David Foot, an economist and author of the bestselling *Boom, Bust and Echo*, says some of the old paradigms of inheritance are changing.

"Basically inheritances tend to go to one generation, they seldom skip a generation. But for the 20-somethings today if the inheritances skip a generation, it will be their grandparents giving them money," says Mr. Foot, adding the phenomenon is already taking root. "The people with a lot of the wealth are 75 plus or even 65 plus, ahead of the Baby Boomers."

If you wait until you die to give your money to your children, they will probably be too old to get much enjoyment out of it because they will be close to retirement themselves.

There are some financial advantages to giving it away while you are alive.

Even though there is no inheritance tax in Canada, the general thinking is the estate does pay because it is faced with capital gains taxes on assets. At the time of death, assets are considered sold and taxes owed on gains. Some provinces also charge probate fees of as much as 1.5% on an estate.

Jamie Golombek, managing director of tax and estate planning at CIBC Planning Private Wealth Management, says there are no restrictions on gifts in Canada, so parents don't have limits on what they can give to their children while they are still alive.

"If you give it well in advance you have three benefits. One, your kid can use the money today. If they've got debt on a mortgage, or any kind of non-deductible debt, the rate of return effectively on your family [wealth] is enormous," says Mr. Golombek, adding that if your child has a mortgage at, say, 4% and you give them half a million dollars to pay it, you are getting a pre-tax rate of 7% to 8% on that money.

A second consideration is your own tax rate versus your child's. If you are in the top marginal rate — 46% in Ontario — you can give them the money once they hit 18 and the investment income could be taxed at a lower rate. "The entire economic [family] unit will be higher for the 20 to 30 years," Mr. Golombek says.

The third play is strictly capital gains. If you give them cash now and they invest it in stocks and bonds, there is no deemed disposition when you die because they own it.

> It's a good idea to give in stages ... are they handling it responsibly?

Certified financial planner Jeanette Brox says one issue parents fear is giving money to their children and then losing the cash because the money is poured into a house, part of which a spouse might get in a divorce.

"One thing we do sometimes is set up trusts for grandkids down the road," says Ms. Brox, adding one way grandparents can help their children without directly giving them money is contributing to education costs.

A grandparent contributing the maximum $2,500 a year to a registered education savings plan would not only attract the maximum 20% grant, or $500, from the federal government annually but would leave the child's parent with that much more to contribute to their own savings, such as an RRSP.

You can also invest in insurance to create wealth for children while still controlling the cash, says Mark Halpern, of illnessprotection.com.

"You buy an insurance policy for your kid and stuff it with money. You buy it on their life and overfund it and then when they are responsible say, 'I bought you this nice present and now it's yours,' and they can access the money," Mr. Halpern says. "You can also buy it on your life and change the ownership to your kids and when they access the money, they'll pay it at their marginal rate."

He also has good advice if you're skittish about giving away money to the children.

"I like the idea of gifting something and see how they handle it," Mr. Halpern says. "It's a good idea to give in stages. Is there a gratitude factor and are they handling it responsibly?"

His best recommendation, however, is first and foremost to make sure you don't give out so much that you run out during your own lifetime — something that has happened to some of his clients.

Financial Post
gmarr@nationalpost.com

Ottawa seeking input on RDSPs

JAMIE GOLOMBEK
Tax Expert

Tax-assisted registered disability savings plans first became available in December 2008 and, with their third anniversary fast approaching, the federal government has launched a formal consultation process to solicit the views of stakeholders as to how to improve the plans.

RDSPs allow parents, beneficiaries and others wishing to save on behalf of someone with a severe and prolonged disability to contribute up to a lifetime maximum of $200,000 for the long-term savings of the beneficiary.

Perhaps the most attractive reason to open an RDSP is to get access to the annual Canada Disability Saving Grants (CDSGs), which can provide 100%, 200% or 300% matching grants, depending on both the beneficiary's family income and the amount contributed, up to a lifetime maximum CDSG limit of $70,000.

In addition, RDSPs may also attract up to $1,000 in Canada Disability Savings Bonds (CDSBs) annually for plans established by low- and modest-income families, up to a lifetime CDSB limit of $20,000.

While contributions to an RDSP are not tax-deductible and are not included in the beneficiary's income when withdrawn, CDSGs, CDSBs and investment income earned, which grows tax-free while inside the plan, are taxable to the beneficiary when paid out of the RDSP.

One of the issues the government is soliciting feedback on is who can be planholder. The planholder makes decisions regarding RDSP contributions, investments and withdrawals.

Once a beneficiary reaches the age of majority — 18 or 19, depending on the province — that person must become the planholder, unless they are mentally incapable. In that case, only the legally appointed guardian of the beneficiary can fulfill that role. Getting someone, including a parent, named as a legal guardian involves a court process that can involve a great deal of time and cost on the part of the disabled person's family. It is a stressful process many families are reluctant to go through.

One solution, similar to what is available in British Columbia, could be to institute a more streamlined process, short of an actual declaration of mental incapacity but not requiring the disabled person to have the legal capacity to give a power of attorney. The B.C. process allows for a disabled individual to appoint a trusted person, such as a parent or friend, to manage resources on behalf of the disabled individual. If this is a potential solution, the government should confirm that such an individual can indeed open and operate an RDSP.

As part of the RDSP consultation process, the government is asking all provinces and territories whether this may be an appropriate solution and soliciting feedback from anyone interested for alternative proposals.

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Jamie.Golombek@cibc.com

Jamie Golombek, CA, CPA, CFP, CLU, TEP is the managing director, tax & estate planning with CIBC Private Wealth Management in Toronto.