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Financial Planning Ltd.

April 2008

2008 Spring Quarterly

Global warming is a topic that perplexes me. I can't deny that it is taking place but I do wonder about the causes from time to time. As an extension to that I wonder about what we can do as individuals to halt the inevitable march of earth's evolution through its many cycles that the natural laws of the universe dictate. Are we actually speeding up the process or would the warming have taken place at the same rate even if we all walked everywhere and used solar heat as our heating source? I listen to the debates and to ease my conscience I do what I can to reduce my footprint on the globe. In the process I hope to save a few dollars over time by adopting more ecologically and economically friendly methods of doing things. We recently purchased a Hybrid vehicle so that I no longer have to drive my gas guzzling truck around the lower mainland. After getting over the idea of driving this less glamorous vehicle verses the other options out there I am pleased with the idea of burning less gas and saving money at the same time. The next project along this line will be the installation of solar panels at our Point Roberts cabin to provide for our heating needs and eventually testing windmill technology for electricity generation. Wouldn't it be great to laugh at those gas prices as they continue to spiral upwards?

On the home front we are all well and healthy. The kids are doing well at school, our oldest is now driving, wow when did that happen? Christie continues to coach our daughter's school volleyball, basketball, club volleyball and whatever else comes along. They had great success this year by reaching the provincials in basketball and placing third in the province. This was very good considering their school is a "AA" school that shouldn't have made it there in the first place. It was very exciting for all of us. Derek's team won the President's League banner in hockey and Lukas had a great season playing hockey and basketball as well. We spent some wonderful family time together at Sun Peaks over March break and look forward to a little more free time over the coming months as the spring sports come to an end. I have been training for a big run this Fall that will take me and several friends to the Grand Canyon to run from Rim to Rim. It is great to have a goal again and get back in the habit of running and riding. Maybe we will do a couple of local races too if the spirit moves us.

Life Insurance Pitfalls for U.S. Citizens Residing in Canada

Many Canadians feel that we are over taxed as compared to our U.S. neighbours. In some cases this is true but in others nothing could be further from the truth. Many Canadians also feel that our tax laws are complicated and designed to create work for legal and accounting professionals who are charged with interpreting the tax act to help us minimize income tax during our lives and capital gains tax at our death. I can confidently say that Canadian Tax law is in some cases more straight-forward than tax laws south of our border. Let's look at some issues that U.S. Citizens residing in Canada face on an ongoing basis. Many U.S. citizens are not even aware of these issues and are surprised to find out how they are affected by them.

A U.S. citizen residing in Canada must file U.S. and Canadian tax returns every year whether or not they earn income in the U.S. Many U.S. citizens do not bother filing their U.S. tax returns because they have been away from the U.S. for many years and may not even have any ties to the U.S. except their U.S. citizenship or they simply don't know that they are supposed to file. This can become a problem in cases where the tax payer has earned a significant amount of income over their life, have realized capital gains from investments or the sale of a family owned enterprise, used tax shelters or been a beneficiary of a family trust as part of an income planning or estate planning strategy. As long as the IRS does not come knocking, U.S. citizens residing in Canada will often remain in the dark as to the consequences of not filing U.S. tax returns. Unless they are highly motivated they will not make efforts to come clean during their lifetime because the prospect of being assessed by the IRS is very scary. There is however a process for coming in from the cold which can provide peace of mind in knowing there are no skeletons in the closet

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to haunt them or their heirs. The cases where the non-filing of U.S. returns often becomes an unavoidable issue is at the death of the U.S. Citizen.

As part of the Executors role the Executor will want to acquire clearance certificates from the Canada Revenue Agency and the Internal Revenue Service before distributing the estate assets to the beneficiaries of the estate. In order to get a clearance certificate from the IRS the Executor must provide the appropriate documentation to the IRS that all income and assets have been reported for Income and Estate Tax purposes. If returns have not been filed during the lifetime of the deceased the Executor will be required to make the appropriate filings to acquire the clearance certificate. The potential for owing U.S. Income tax is entirely dependent on the circumstances and all U.S. Citizens should seek the counsel of a tax advisor well versed in cross border taxation. The impact of U.S. Estate Tax should also not be taken lightly. Here are several examples of how life insurance can create problems for U.S. Citizens residing in Canada.

U.S. Estate Tax Exemptions for U.S. Citizens (*assumes no rollover to surviving U.S. Citizen Spouse*)

- \$2,000,000 for 2008
- \$3,500,000 for 2009
- Unlimited in 2011 (*best do die in this year for estate tax purposes*)
- \$1,000,000 in 2011 and beyond (*reverts back to old rules*)

Individually Owned Life Insurance

A husband and wife own life insurance on themselves to provide their surviving spouse and children with capital to pay down debt and/or to provide for income in the event of their premature death. The wife is a U.S. Citizen residing in Canada and the husband is a non-U.S. Citizen. The life insurance benefit is \$1,000,000 on each. The wife dies and the life insurance proceeds are paid to the husband as the named beneficiary. For Canadian tax purposes the life insurance proceeds are tax free. For U.S Estate tax purposes the insurance makes up part of the estate of the deceased and is subject to estate tax at a rate of 45% on all amounts over the exemption limit. All assets owned in the name of the deceased spouse are included for calculating estate tax including assets owned in joint tenancy with the spouse. If the total of all assets owned by the deceased individually and in joint tenancy were \$3,000,000 the estate bill would be approximately \$1,350,000 less capital gains tax paid to CRA. The net value of the life insurance is \$630,000 rather than the \$1,000,000 that was purchased. One solution would be to use an Irrevocable Life Insurance Trust (ILIT) to own the insurance on the life of the U.S. Citizen naming the Canadian Citizen Spouse as the beneficiary of the trust.

Corporate Owned Insurance

A U.S. Citizen is a 50% shareholder in a Canadian Controlled Private Corporation that owns life insurance on his life as part of a buy sell agreement on death. The agreement states that the life insurance proceeds, which are paid to the company, are to be used to repurchase the shares of the deceased from his estate. The insurance amount is \$5,000,000 and the shareholder's shares are worth \$5,000,000. The estate/capital gains tax would be payable on the total company value including a 50% share of the value of the life insurance proceeds or \$7,500,000. The estate/capital gains tax on the shares would be \$3,375,000 on the deceased interest in the company even though he/she is only being paid \$5,000,000 for the shares. The net value of those shares to the heirs of the estate would be \$1,625,000 which is an effective tax rate of 67.5%. If that U.S. Citizen were to renounce his/her U.S. Citizenship and did not die within 10 years of renouncing his/her Citizenship the tax cost would be \$1,250,000 or 22%. There are other ways to reduce the amount of U.S. Estate Tax, without renouncing citizenship, which could apply in this situation however the best case scenario may be that the combined U.S. and Canadian tax rate is 45%. This applies to business assets exceeding the Estate Tax Exemption limits.



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The key here is to do the planning so that there is a clear understanding of the amount of estate tax that would apply and where possible, take appropriate steps to reduce that liability as much as possible. This planning can remove the risk of unpleasant surprises to the executor and the heirs of the estate. U.S. Estate tax also applies to Non-Resident Aliens (Canadians living in Canada) that own stocks in U.S. companies, private or publically traded, or U.S. Real Estate or other property. The exemptions are lower and the formula for determining the amount of exemption that will apply are different for this group as well, so be aware. Maybe Canadian tax rates aren't so bad after all?

triAccess Update

triAccess health insurance continues to be very popular due to its unique low cost approach to providing access to top centers of excellence in the U.S. and around the world along with care and funding. There have been some changes to the plan making it better than before. The new 2nd Opinion provider has been changed from Best Doctors to World Care, a global service provider with a proven track record for excellent service. We continue to look for ways to improve this product to ensure a rapid and thorough response to your health care needs wherever you are on the globe. Here is an overview of what the claims process looks like in the event that you find yourself needing to deal with an illness or injury.

As a triAccess coverage holder you have access to the best health information, quality health care services and insurance funding for serious or potentially serious medical conditions. triAccess is a highly personalized and caring approach to locating leading health and research information, and to finding quality care in centers of medical excellence, while providing you with the financial protection you need. Professionals are at the ready, 24 hours a day, 7 days a week to handle every aspect of your claim.

Here's how it works.

- Step 1:** You have received a preliminary diagnosis from your Canadian doctor and you're waiting for surgery, treatment or a diagnostic procedure in Canada. When you start the claims process by calling Global Excel™ (1-800-566-1860) to provide the details of your diagnosis, a case coordinator and a case manager are assigned. The case manager is your key contact, and will help you through the process of accessing care and funding.
- Step 2:** Global Excel will contact your diagnosing doctor to obtain your medical records in order to determine if the recommended treatment is covered and to provide pre-approval.
- Step 3:** Your case coordinator will discuss all of the options available to you and help you locate the most suitable treating physician and facility to meet your needs. If a second opinion is required, a WorldCare® Team Second Opinion will be provided to you within 5 business days. Once you have decided on the best course of treatment for your situation, all of your medical appointments will be arranged for you. As well, all travel and accommodation arrangements will be made for you and a travel companion when necessary. Your medical records will be sent to the treating facility prior to your appointment.
- Step 4** Global Excel will arrange for direct payment to any treating physicians and/or facilities up front. Your travel costs will be prepaid and you'll be reimbursed for out-of pocket accommodation, meals and alternative travel expenses. (For all of these payments, your deductible will be applied against the expenses or charged back to you after treatment. In the case of an employer-paid deductible, Global Excel will reimburse you for covered expenses and charge your employer the deductible.)

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Step 5 Your treating physician will review your results with your Canadian doctor and together they will develop a follow-up plan for you.

Step 6 Your case coordinator will ensure that all of your treatment records and results are sent to your Canadian doctor. If follow-up appointments are required at the treating facility, your case coordinator will make all the arrangements including travel and accommodations. Additional local follow-up care will be arranged if needed.

With a triAccess policy, your job is simply to get better. The triAccess team takes care of the rest.

For information on other health related insurance products such as Long Term Care, Critical Illness Insurance and Disability Insurance please call our office at (604)924-9152 and we would be happy to provide you with the information that you are looking for.

ICF Administration

In order to provide more proactive service with respect to the administration of the Investment Credit Facility, we will be providing an annual report at the year-end of the Borrower. In the case of a corporate borrower the report will be provided shortly after the year-end of the company and will include all relevant information that the accountant will require in order to complete the company's year-end financials and tax return. In the case of personal borrowers the annual report will be provided in the first quarter of each year. The annual report will consolidate information provided by both the insurer and the lender under the ICF contract into a single document that can be used for reference for planning or during the preparation of tax returns. Copies of the report can be provided directly to your accounting professional as well.

In Closing

We wish you a pleasant transition from the cold of winter into the warmth of spring. Here are a couple of thoughts to entertain your mind and warm your heart.

"If we had no winter, the spring would not be so pleasant; if we did not sometimes taste of adversity, prosperity would not be so welcome."
Anne Bradstreet

"April hath put a spirit of youth in everything."
William Shakespeare

Sincerely,

Cove Financial Planning Ltd.

Bernie Geiss, CFP, CLU, RHU
President

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