RAWLING REPORT

SUMMER 2014 • BROUGHT TO YOU BY RAWLING FINANCIAL INC.

HELPING CLIENTS MAKE WISE DECISIONS REGARDING THEIR WEALTH

Save it. Spend it. Leave it.

A strategy to help optimize your net worth

Growth on money held in passive investments is taxed at the highest marginal tax rate. The erosion of future growth potential due to taxes may threaten your financial security plan. However, the "Save it. Spend it. Leave it." strategy shows how tax-efficient permanent life insurance can be.

It allows you to compare the amount of capital and the required rate of return needed in three different asset classes to achieve the same cash flow and net estate that may be obtained through permanent life insurance.

Save it: You can use permanent life insurance to accumulate cash value on a tax-advantaged basis for future use.

Spend it: You can access your policy's accumulated cash value to help meet your needs. In the long term, you may use the policy as collateral to obtain a line of credit.[1]

Leave it: You can use life insurance to preserve more assets for your beneficiaries and heirs. The death benefit goes directly to the named beneficiaries tax-free.

[1]Clients should not purchase life insurance just because of the future possibility of obtaining a collateral loan. Collateral loans involve risk. They should only be considered by sophisticated investors with high risk tolerance and access to professional advice from a lawyer and accountant. The terms or future availability of collateral loans cannot be guaranteed.

Consider life insurance as a unique asset

Permanent life insurance is a unique asset class because of its immediate estate enhancement and the opportunity for tax-advantaged growth within legislative limits as long as the growth remains in the policy. It can serve your primary need for insurance and at the same time provide strong, long-term growth and allow for a tax-efficient transfer to your estate, all for less cost or less risk than many other asset classes.

The right permanent life insurance solution can assist you in achieving these goals.

- Transfer wealth to your estate
- Reduce concerns about taxes on income
- Strategically diversify your portfolio

I can help you determine how permanent life insurance may fit into your financial security plan.

Own U.S. real property? Know what is required for tax purposes.

By Angela Preteau

Many people have taken advantage of the real estate market drop in the U.S. and have purchased U.S. real estate for personal use or as a rental property, but many do so not realizing what owning this kind of property means from a tax perspective.

If U.S. real property is purchased solely for personal use then there are no tax filing requirements in the U.S. until the property is sold. However, if property is purchased for rental purposes then a U.S. tax return is required to be filed each year to report the net profit or loss realized on that rental roperty. Depreciation is a mandatory deduction in the U.S. so even if you purchase the property in one year but don't actually earn any rental income until the next year, you must still file a U.S. tax return to report the purchase and claim any required depreciation. Losses from a rental property can only be claimed against other rental income/profits or can be carried forward for use in the year of disposition.

U.S. withholding tax is required on gross rents received each year at a rate of 30 per cent; however, form W-8ECI can be filed with the agent (the person collecting the rents) to elect out of the withholding tax requirements. Filing this election means that you are electing to treat the rental profits/losses as effectively connected[1] business income in the U.S. and must file a non-resident U.S. tax return each year and pay any necessary taxes at that time.

The disposition of U.S. real property is a taxable event that usually garners U.S. withholding taxes when the seller is a Canadian. A flat 10 per cent rate is applied to the gross proceeds on the disposition by a foreign person unless certain circumstances exist to reduce the withholding amount or eliminate the requirement to withhold. If a gain results on the disposition, the tax is first payable in the U.S. and then a foreign tax credit is allowed in Canada to offset the tax Canada will apply on that same gain. The U.S. taxes 100% of the gain whereas Canada only taxes 50 per cent of the gain. The tax rate applied to the also differs in both countries. In the U.S., a flat rate of 15 or 20 per cent is applied to long-term gains and regular marginal rates are applied to short-term gains. In Canada, marginal rates are applied to taxable capital gains.

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[1] To be effectively connected means that you are treating your rental operation as a business for U.S. tax purposes and there are no withholding taxes on business income.

Original article published In Knowledge Bureau Report, April 17, 2014. Reprinted with permission from Knowledge Bureau.
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