Armstrong
Financial Services

April 17, 2024

Attn: Life Insurance Memo

Re: Recent Changes to Capital Gains Inclusion Rates

We wish to inform you of significant changes in the Canadian tax regime that could impact your estate planning. The inclusion rate for capital gains has been increased from 50% to 66.67%. This means that a larger portion of capital gains will now be taxable, increasing tax liability on death.

Overview of Changes:

- **Previous Tax Rate:** The net capital gain tax on the fair market value of estates was slightly more than 26%.
- **New Tax Rate:** With the increase in the inclusion rate, this liability has now escalated to nearly 36% of the estate's fair market value.
- **Affected Assets:** This adjustment represents a 33% increase in the tax burden and impacts inherited assets including corporation shares, real estate, and stock shares.

Example on a $20M Estate:

- **Previous Tax Liability:** Approximately $5.33 million (26.65% of estate value)
- **Current Tax Liability:** Approximately $7.11 million (35.54% of estate value)
- **Increase:** Approximately $1.78 million, representing a 33.33% rise in liability.

Implications for Life Insurance:

Life insurance provides after-tax liquidity precisely at the time of the owner's death, making it a vital tool in estate planning. It helps avoid the forced liquidation of valuable assets, which could suffer from multiple layers of taxation and significantly reduce the estate's value. A reassessment is crucial if your existing life insurance was aligned with the previous tax obligations. Please contact us at your earliest convenience to schedule a meeting where we can review your planning in detail.

Sincerely,
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