



Trusts – Can You Use One in Your Estate Plan?

When exploring your financial or estate plan, you may have heard of using a trust to accomplish certain goals. Exactly what is a “trust” and how might one fit into your plans?

What is a Trust?

A trust is a relationship among several individuals. A person called the “settlor” owns the assets that will be placed in the trust. The settlor chooses a “trustee” who holds the assets in trust for the benefit of chosen “beneficiaries”. A settlor may choose an individual, a trust company or combination of these to act as trustee.

Kinds of Trusts

There are two types of trusts. A testamentary trust is established in a person’s Will and does not come into effect until the settlor has passed away. A living, or “inter-vivos” trust is a second type of trust which comes into effect as soon as the trust deed is signed. Living trusts may continue beyond the settlor’s lifetime.

Planning Opportunities for Testamentary Trusts

There are various reasons why you may want to use a testamentary trust in your Will.

Spousal Trusts

If you are concerned that your spouse may not be comfortable managing financial matters should you die, you might consider establishing a spousal trust in your Will. With a spousal trust, your trustee will invest your estate for your spouse’s lifetime. Income from the invested funds can be paid to your spouse during his or her lifetime. Your spouse can obtain access to the capital of the trust for his or her own use. At the end of your spouse’s life, the trust assets are passed on to beneficiaries you specify in your Will, such as your children or charity.

Spousal trusts are commonly used by seniors who marry for a second time, each having adult children.

Using a trust, you may care for a second spouse for their lifetime, but preserve assets for eventual inheritance by your own children.

Trusts for children/grandchildren

Do you wish your children or grandchildren to receive an inheritance from your estate when they reach the age of majority? If you are concerned that they would not have the maturity to handle the gift responsibly, you can establish a trust in your Will, where benefits from your estate are available to care for children until a certain age. The inheritance is then held in trust until children are older, perhaps age 25 or 30. You might also consider giving children their inheritance in a series of payments at various ages. Many strategies are available when structuring trusts for this purpose.

Special needs

If someone in your life is physically or mentally challenged, inheritances can be held in a special trust for the benefit of the individual. In this case, the trust is structured so that any government assistance received is not affected by an inheritance.

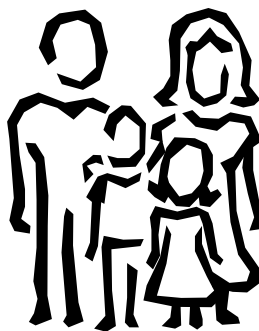
Planning Opportunities for Living Trusts

Some circumstances that may warrant incorporating a living trust into your estate plan.

Relieving Stress of Financial Management

If you feel over-burdened by managing your finances and wish to reduce the responsibilities of monitoring and managing your retirement funds, a living trust might be appropriate.

You could place your investments into a trust to be managed by a corporate trustee for the rest of your life and that of your spouse. The trustee invests and preserves the capital, while you and your spouse enjoy a steady income stream. Should you ever become incapable of handling your affairs or pass away, you have the peace of mind of knowing you have a plan in place. When you and your spouse have both passed away, the trustee is directed to dissolve the trust and pay the trust funds to your named beneficiaries.



Benefiting a charity

Are you thinking of benefiting a charity during your lifetime but are concerned that this will significantly reduce your retirement income? You can still enjoy the benefits associated with charitable giving without affecting your income stream. By using a living trust called a “charitable remainder trust”, you can place the amount you intend to donate to the charity into a trust and receive the income generated during your lifetime. You receive a tax receipt for the “future value” of the gift. At the end of your life, the charity will receive the amount held in trust for its benefit.

You also benefit from a fact that applies to all living trust arrangements. Assets held in a trust reduce the assets that would otherwise flow through your estate when you pass away. This then reduces probate fees payable by your estate to your provincial government.

Estate Freezes

A more sophisticated form of living trust is an “estate freeze”. If you have a family-owned business and you wish the future growth of the business to flow to your children or grandchildren, you can arrange the shareholdings of the business such that a living trust owns the common shares. Any increase in value of the business will then accrue to children or grandchildren as beneficiaries of the trust.

Significant Issues to Consider

Trustee

It is important to consider your choice of trustee for both living and testamentary trusts. The role of trustee carries great responsibility. A trustee must abide by the rules set out in law and in the trust deed. The role of trustee also carries potential liability. Appointing corporate trustees may be the wisest approach in some cases.

Investments

You should consult your investment advisor when placing investment assets into a living trust. How funds are invested must coincide with the purpose of the trust and the needs of the beneficiaries. Investments in a trust can have significant income tax implications as well. Generally, income not paid to beneficiaries of a living trust is taxed at the highest rate - approximately 53%. Income not paid out of a testamentary trust is taxed at marginal rates.

Income Taxes

It is critical to consult your accounting or tax advisor when considering the use of a trust in your

estate plans. You must also consider assets that you put into a living trust. Generally, there is a deemed disposition of an asset that flows into such a trust – so capital gains taxes may be due on the transfer. In the Income Tax Act there are also “attrition rules”. If the trust is structured improperly, income generated by the trust funds may be attributed back to you the settlor and taxed in your hands. Your lawyer can ensure the trust is structured appropriately for your personal situation.

Trusts can satisfy numerous personal and financial objectives. Does a trust fit in your estate plan?

News of Interest at CSS

Henry Eygenraam

On May 5th some 26 members gathered for the annual CSS membership meeting. The meeting was held in the boardroom adjacent to our office in Markham and chaired by John Meiboom of ICS. It was the first time many of the participants had seen our new location.

Two board members were elected. John Meiboom, our current chairman, was re-elected for a second 3-year term. Henry Contant from SCSBC was elected to replace John Schuurman who completed his term and served on the Investment Committee for many years.

Reports were received from Henry Contant who chairs the Stewardship Education committee and Bill van Stalduinen, chair of the Strategic Planning Group. Executive Director Henry Eygenraam reported on the year’s activities and conducted a brief brain storming session on working together more effectively with sponsors to provide services to their supporters. Willard VanderPloeg provided an update on the technology we are introduced at the office to track and facilitate our work with donors, clients and sponsors. Treasurer Jacob Kramer presented audited financial statements and the budget for the coming year.

It was a very positive, informative gathering and we look forward to the new year with expectations of continued blessings on the work we will do.



Gift Your RRIF to Charity?

Saving for your retirement is becoming an essential part of a complete financial plan. However, your strategy should also consider what happens to your RRSP or RRIF when you pass away.

Upon your death, where a surviving spouse is not a named beneficiary, these registered savings are deemed to be disposed of. 100% of the remaining balance is added to your income in the year of death. The tax liability on the disposition will be born by your estate.

For many, an RRSP or RRIF plan will contribute significantly to income in the year of death. Since Canadians can now receive tax credits for charitable gifts of up to 100% of their income in the year of death (and retroactive one year) – it may make good sense to gift assets like these directly to charity through a beneficiary designation or a bequest gift in one's Will.

Two possible ways of using your RRSP or RRIF to

- it may make good sense to gift assets like these directly to charity through a beneficiary designation or a bequest -

make a charitable gift are:

1. Make your estate the beneficiary of the RRSP or RRIF after your spouse, and have the estate donate an equivalent value to the charity – either as a fixed dollar amount or as a percentage of the total estate. You may also gift the asset specifically by naming its account number and financial institution. If your spouse survives you, then the spouse's Will must provide for a similar bequest. A receipt will be issued to the estate to offset the taxes payable by the estate in the year of death.

Using this method, the asset is included in the estate and probate fees are payable to your Provincial government on it. If you choose to gift the asset specifically from your Will and subsequently change financial institutions or otherwise alter the investment, the gift will likely not occur since the asset named will cease to exist.

2. Make your favourite charity(s) the beneficiary or alternate beneficiary of your RRSP or RRIF. Upon your death, or that of your spouse, charity receives the balance of the asset directly from the financial institution. The estate receives tax credits for the charitable gift to offset the tax on income it will incur. Because the asset passes outside of the estate, no probate fees are payable, resulting in further savings for the estate.

Using this method, charities have no involvement in your estate and receive their gift in a timely fashion. This increases the level of privacy in distributing your estate. Donors should ensure that there are sufficient liquid assets to pay the taxes on the resulting disposition.

Christian Stewardship Services can Help!

Because of several possibilities surrounding gifts of RRSP's and RRIF's which have varying tax and estate planning implications, potential donors should consult the staff at Christian Stewardship Services and/or their own professional advisors before proceeding.

Christian Stewardship Services can also act as a distributor of RRSP and RRIF gifts to your favourite charities. Contact the CSS office for details.

advancing stewardship

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Moneywise Meditation

Talk with your Children

By John H. Rudy

We don't talk enough about money at home. We're too secretive. Sometimes we even shut out our spouses from any discussion of family finances.

Our own children are now grown. But when they come home we still talk about money. We talk about making money and spending it. We talk about buying houses, trading cars, giving, saving, investing, writing Wills. Our discussions, even using dollar amounts, seem to come naturally. As parents, we are deeply grateful for such open communication.



There are some important occasions to talk about money with our children: (1) When the children are at home and we invite their participation in preparing family budgets. (2) When they accompany us to the

store and we seize opportunities to model Christian stewardship. (3) When they receive their allowances and we talk about responsible spending and generous giving. (4) When we are older and we write our Wills and plan the distribution of our estates.

Too often we exclude money from our family conversations. And then, some time later, poor communication causes broken relationships.

I have seen far too many family conflicts over money

which might have been avoided by greater disclosure and more discussion.

Moneywise Meditations by John H. Rudy is a collection of meditations on Christian stewardship. A limited number of copies are available for purchase from Christian Stewardship Services. The price for this 160 page book is a modest \$7.50 with mail shipping included. Contact the CSS office to order your copy.

- - WANTED - -

CSS & CRC Canada, are looking for this person...

This person has...

- Positive interpersonal relationship skills
- Group presentation and facilitation abilities
- Experience and skills in adult education
- *A passion for helping people and churches grow in the use of their gifts*
- Enjoys travelling across Canada

Have you ?????

- seen this person in your church or...
- in your mirror????

Help us !!

catch this much wanted person by July 28, 2000.

for a **REWARD**ing opportunity,
contact the CSS office for an application
package or more information.

Request for Information: mail or fax to:

Christian Stewardship Services 600 Alden Road, Suite 315 Markham, Ontario L3R 0E7 Fax: (905) 947-9263

Please provide the following:

- | | |
|--|--|
| <input type="checkbox"/> More information on the work of CSS | <input type="checkbox"/> Information on RRSP/RRIF Gifts |
| <input type="checkbox"/> Information on making a Will | <input type="checkbox"/> Information on the CSS Endowment Plan |
| <input type="checkbox"/> Have a representative call to arrange a visit | |
| <input type="checkbox"/> Information on Charitable Gift Annuities | |

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