TAX MATTERS

Estate planning starts with the five Ds

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I've been working on a children's book to teach kids about investing, taxes, budgeting and estate planning.

My story involves a prince and princess, a dragon, and the usual medieval backdrop. The last sentence reads: "Then the dragon ate the prince, but his family trust and the princess lived happily ever after."

Well, the ending isn't so happy for the prince, but still, the moral of the story is a good one: The importance of a good estate plan for the long-term health and happiness of your family can't be understated.

Today, I'd like to share a framework for crafting your plan – called the five "Ds" of estate planning: **Define, design, document, discuss and distribute**. The five Ds approach has been adapted from author Sandra Foster's *Estate Planning Workbook* published a number of years ago. Today, let's focus on the first two Ds.

1. Define

A good place to start is to define what's most important to you. These are your core values. And if you're looking for a great resource to help you figure this out, there are few people better than Dave Phillips, an experienced mentor to many highly successful business leaders across North America. He offers some free tools on his website. In particular, check out The Values Game he provides there.

It's your core values – not those of your children or others – that should guide your estate planning decisions. If you figure out, for example, that generosity is a core value for you, you might decide to include some charitable gifts in your will. And if faith is another core value, then perhaps your charitable gifts will be to faith-based organizations.

Similarly, if family and adventure are important to you, then your estate plan should aim to make a positive difference for your family and perhaps build in some element of adventure. One couple I know, for example, decided to use a small portion of the money they planned to leave the kids to take the entire family (children and grandchildren) on an African safari to build connection and memories.

Once you’ve defined your core values, then define who in your life will receive your assets. You’ll also need to define how much they’ll receive, and when (during your lifetime, or upon death).

Some questions to ask yourself here: Do you want to enjoy your money while you’re alive? Do you feel a desire or obligation to help your heirs? Do you want your spouse to inherit everything if they survive you? Should your kids benefit equally from your estate? Are there specific assets that specific children should receive? Are you concerned about leaving your heirs too much? Do you want to make gifts to charities? Do you have debts that will have to be paid off before your heirs receive anything? If you own a business, have you considered the appropriate transition of ownership and management?

2. Design

The second step in the process should be to design which strategies, tactics and tools you’ll use to transfer your estate to your heirs. This needs to start by defining your objectives, which should be consistent with your core values from Step 1.

Everyone’s objectives can be different, but some common ones include 1) minimizing tax at the time of death or transfer; 2) ensure your surviving spouse can maintain his or her standard of living; 3) providing for the proper management of your assets after you’re gone; 4) watching your children enjoy some of their inheritance today; 5) ensuring minor children are looked after; 6) ensuring kids from a first marriage receive the appropriate share of your estate; and 7) maintaining harmony in the family after you’re gone.

You may need to prioritize objectives that conflict with each other. For example, wanting to see your kids enjoy some of their inheritance today, and ensuring that your spouse’s standard of living is maintained when you’re gone can be conflicting objectives.

Some of the tools that are useful in accomplishing different objectives can include: trusts to hold assets for minors until they reach a certain age; using the principal residence or lifetime capital gains exemptions to shelter gains on a home, cottage or private company shares; a spousal trust to provide for your spouse but ensure the assets go to your kids after your spouse’s death; life insurance to provide cash for charity, fund a tax bill, or top-up an inheritance so everyone is treated equally.

Speaking with a trusted tax and estate professional will be important here.

Next time, I’ll continue the conversation of the five Ds.

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