



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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RBC Dominion Securities Joint Gift of Beneficial Right of Survivorship account — Is this the right account for you?

Key considerations for those interested in opening
this account as an accountholder

As part of the estate planning process, you may want to establish a joint account with a spouse, with one or more of your adult children, or with another family member. One reason for doing so may be to ensure the assets are immediately available to the surviving accountholder(s) upon your death. Another reason may be part of an overall estate planning strategy to potentially minimize probate fees on death. At RBC Dominion Securities, one type of joint account available is a Joint Gift of Beneficial Right of Survivorship (JGBRS) account. A JGBRS account may help you achieve some of these estate and tax planning objectives. However, it's important that you understand the benefits and potential drawbacks of this account prior to opening one. It's also important to consider how a joint account fits into your overall estate plan. There may be other estate planning tools that are more appropriate based on your current or future estate plans.

Any reference to a spouse in this article also includes a common-law partner.

Please note the JGBRS account is only available to Canadian tax residents (except for residents of Quebec). A Quebec resident, non-resident of Canada or minor child is not permitted to be an accountholder or successor accountholder of a JGBRS account.

What is a JGBRS account?

The RBC Dominion Securities JGBRS is a joint account which facilitates the retention of legal and beneficial ownership of the account (including the securities of the account) by you, the primary accountholder, during your lifetime, while gifting the beneficial entitlement to the right of survivorship in the account to any family members or friends named as successor accountholder(s). The terms of the RBC Dominion Securities client account agreement governing the JGBRS account expressly state that the intention of the accountholder at the time of account opening is to make an inter vivos gift, at the time of account opening, of the beneficial entitlement to the right of survivorship in the account. Neither the account nor the securities therein are gifted at the time of account opening. This means the successor accountholder(s) does not have any entitlement to or control over the account or the securities until the death of the primary accountholder. The successor accountholder(s) in their personal capacity is not permitted to receive any information about or provide any instructions in relation to the account while the accountholder is alive or to withdraw funds from the account. Accordingly, the accountholder retains sole control of the account during their lifetime.

On the death of the accountholder, legal and beneficial ownership of the account, and the securities held in the account, will transfer to the successor accountholder(s). The name of the deceased will be removed from the account so the JGBRS is subsequently held in the name of the successor accountholder(s) without requesting probate. If there are multiple successor holders, they will hold their portion in equal shares as tenants in common (unless written instructions are to convert the account to a joint tenant with right of survivorship account.)¹

If there are no successor accountholders alive on your death, the securities held in the account will form part of your estate to be distributed according to your Will, or, if you have no Will, provincial and territorial intestacy laws. In this situation, probate would generally be requested to release these securities to your executor.

Who can provide instructions on the account during your lifetime?

During your lifetime, only you, the accountholder, can provide instructions, trade on the account or make withdrawals. As accountholder, you retain control

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of the account and its securities. The successor accountholder(s) doesn't have any right to receive information about the account, give instructions in respect of the account, or otherwise deal with the account during your lifetime. If you have expressly directed, a successor accountholder may have additional roles such as Trading Authority, Interested Party, or Power of Attorney. In those capacities, the successor accountholder may be able to provide instructions or receive information about the account.

Can you change the successor accountholders during your lifetime?

As accountholder, you can't remove a successor accountholder from the account or add a new successor accountholder after the account has been opened. Although a successor accountholder has no ownership of the account or its securities during your, the accountholder's, lifetime, when an account is opened, you make an irrevocable gift of the right of survivorship to the successor accountholder(s). This gift of the right of survivorship can't be revoked or withdrawn. This means you, as accountholder, can't take back the gift and give it to someone else. For this reason, if you change your mind about the inclusion of a successor accountholder during your lifetime, the only recourse is to withdraw all assets from the account and open a new account with new successor accountholders. However, if you're mentally incapable at that time, your continuing or enduring power of attorney for property would not be able to open a new JGBRS account on your behalf.

Tax considerations

At the time of opening the account

When you transfer securities from your sole name non-registered account to a JGBRS account, there is no taxable event. This is because there's no change of beneficial ownership of the securities at that time. You remain the 100% beneficial owner of the securities in the JGBRS account and continue to report all of the income and capital gains earned in the account during your lifetime. Your successor accountholders do not report any income or capital gains on their personal tax return(s) during your lifetime.

¹ A tenants in common account allows each co-owner to have a distinct and separate share of the securities in the account. Unlike a joint tenancy, if one co-owner dies, their share of the securities in the account would pass through their estate to be distributed as per their Will (or if they have no Will, provincial or territorial intestacy laws) and would not automatically transfer to the surviving co-owners.

Tax implications on the accountholder's death

On your death, there's a deemed disposition of 100% of the securities in the JGBRS account at fair market value (FMV), unless the securities pass to a surviving spouse (in which case the securities would generally roll over to your spouse at your adjusted cost base (ACB)). Any capital gains or losses realized as a result of this disposition are reported on your terminal tax return and subject to tax at your marginal tax rate. It's important to note that this deemed disposition is not reported on any tax slip. Your executor will be responsible for properly reporting this deemed disposition on your terminal tax return with the assistance of a qualified tax advisor. As well, your estate will be responsible for paying any taxes that may be owing as a result of the deemed disposition triggered on death.

The securities in the account will pass directly to the surviving successor accountholders in equal shares (if there's more than one successor accountholder living at your death). For income tax purposes, unless your spouse is named, the successor accountholders will acquire the securities in the account at the FMV as of the date of death. This will become the ACB of these securities in the account going forward. It should be noted that the ACB of these securities will not automatically be updated by RBC Dominion Securities and will only be updated to the FMV on the date of death upon instructions from the successor accountholder(s). Going forward, each successor accountholder will pick up an equal share of the income and capital gains earned in the account.

In the year of your death, the successor accountholder(s) may receive tax slips for the entire year's worth of income and capital gains (losses) earned in the account, which may include income and gains earned in the account prior to death. The successor accountholder(s) will need to work with your executor and a qualified tax advisor to determine what income and capital gains (losses) should be reported in your terminal tax return and what income and capital gains (losses) should be reported in their individual return(s).

Probate considerations

Although RBC Dominion Securities does not generally require probate to allow the securities in a JGBRS account to pass to the successor accountholder(s), these assets may need to be included in an application for probate if the executor of the deceased accountholder applies for probate or if a third party makes a claim to the assets in the account. It's therefore important that you discuss this matter with a qualified legal advisor before opening a JGBRS account.

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Key considerations before transferring securities into a JGBRS account

Ability for your estate to pay taxes or other debts at death

On your death, the assets in the JGBRS account pass directly to the successor accountholder(s). As a result, your executor may not be able to access the securities or funds and use them to pay any tax liability resulting from the deemed disposition of these securities on your death.

Consider the potential tax implications of the following example:

Mr. X owns a non-registered investment account with an FMV of \$3 million (ACB of \$1 million), a house worth \$400,000 and an RRSP valued at \$1 million. He's designated his wife as the beneficiary of his RRSP. Mr. X had previously opened a JGBRS account and transferred his non-registered investment account to a JGBRS account, naming his three daughters as successor accountholders. Upon his death, his three daughters receive the assets in the JGBRS outright. Assuming a marginal tax rate of 50%, however, a \$500,000 tax liability is triggered on the deemed disposition of the assets in the JGBRS account that's payable by Mr. X's estate. As the bulk of Mr. X's assets passed outside of his estate (only the \$400,000 house formed part of the estate), there would be insufficient assets in his estate to pay the taxes owing. The executor of the estate would be faced with a liquidity issue and a potentially insolvent estate.

As illustrated, passing most or all of your assets outside of your estate could mean there are insufficient funds available to your executor to pay any taxes owed by you on death, or any debts owed by you or your estate.

If most or all of your assets will pass outside of your estate, consider whether you should be setting aside sufficient funds in a sole name account to cover any outstanding taxes and debts that may be owed by you or your estate on death. This will ensure there are funds available to your executor to cover these liabilities.

Lack of flexibility in making gifts and potential unintended consequences

There's no limit to the number of successor accountholders on a JGBRS account. However, the surviving successor accountholders may only receive the securities in the account in equal shares. There's no ability to specify the percentage share received by each surviving joint accountholder, which would limit your ability (as the accountholder) to gift securities to friends and family in differing proportions. Furthermore, any funds held in a JGBRS account would likely be unavailable to fund other bequests, including charitable bequests set out in your Will, as the securities generally pass outright to the successor accountholder(s).

JGBRS account only passes to successor accountholders who are living at the time of your death

The JGBRS account only benefits successor accountholders living at the time of your death, leaving no entitlement to the heirs of a successor accountholder who has died before you. The securities in the JGBRS account will pass to the successor accountholder(s) alive at the time of your death in equal shares. There's no ability to name contingent beneficiaries in the event a joint accountholder predeceases you. This may be avoided by leaving the securities in your sole name and having them pass through your estate and distributed in accordance with your Will.

If a successor accountholder predeceases you, you could change the distribution by withdrawing the securities out of the account, closing the account and opening a new JGBRS account with newly named successor accountholders. Note that changes to an account will not be possible where you're deemed to no longer have mental capacity. Moreover, an attorney appointed pursuant to an enduring power of attorney is not permitted to make changes to a joint account.

In the event there are no surviving successor accountholders following your death, your securities would form part of your estate and will be distributed in accordance with your Will, or, if you have no Will, provincial or territorial intestacy laws.

Alternative estate planning vehicles and other strategies to consider

There may be estate planning vehicles or strategies other than a JGBRS or other joint account that are more appropriate based on your current or future estate planning objectives. Some options may include creating an alter ego trust or joint partner trust, setting up a testamentary trust in your Will, making an outright gift to

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adult children, or appointing a power of attorney. You may want to review these strategies with a qualified lawyer and determine which one(s) are best suited for your particular situation.

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