

# ADVANCING *Issues*

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## Travelling? Don't forget the Insurance

By *Leanne Teston, Vice President, Corporate Planning Associates*

An interesting fact – A 2003 RBC/Ipsos-Reid study showed that while 84% of Canadians described Travel Insurance as being important for peace of mind, only 60% of Canadians purchased Travel Insurance for trips outside of Canada and the US in the last three years. The truth is that emergencies can happen to anyone anytime, no matter how well prepared they are. Let's take a look at the different types of insurance available to the travelling Canadian today.

**Emergency Medical Insurance** – Emergency Medical Insurance is the most important insurance that should be secured prior to leaving your province. Contrary to popular belief, even medical expenses in another province in Canada may not be fully reimbursable by your provincial health plan. A hospital stay in the US even for a couple of days can cost thousands of dollars. Coverage can be purchased on an annual or per trip basis. The policy may or may not have a deductible.

Coverages can include, but are not limited to: emergency treatment other than dental, emergency prescription drugs, incidental hospital expenses, ground ambulance, transportation of your remains and the cost of common carrier transportation in case of death, bedside companion expenses, return of children to departure point, and even return of pets to the point of departure. You may be required to complete a medical questionnaire, and normally with per trip insurance the cost will be based on your age, and the length of your trip. Exclusions for coverage can include most if not all pre-existing conditions, self inflicted injuries, mental or emotional disorders, any treatment that is not an emergency, participation in dangerous activities, and pre-natal care. The most important thing to remember is that the insurance company should be contacted at their 1-800 number as soon as possible after the emergency occurs by either yourself or someone on your behalf, to gain approval for the treatment being rendered.

**Cancellation and Interruption Insurance** – this is also a very popular type of coverage. Cancellation insurance can reimburse your costs when a risk occurs before your trip. Trip Interruption can reimburse your costs when a risk occurs during your trip, and Trip Delay can reimburse your costs when a risk occurs during your trip, and delays you beyond your original return date. Circumstances that may qualify for benefits under Cancellation and Interruption Insurance include but are not limited to: the tour operator going out of business, admission to a hospital by you, or an immediate family member, admission to a hospital by your travel companion or one of their immediate family members, pregnancy complications for you, an immediate family member, your travel companion or their immediate family member who was not diagnosed at the time of purchase of the insurance. Government advisories and Visas can also be a reason for receiving benefits from Cancellation and Interruption Insurance. For example, written

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# New Rules

## The Conservatives' charitable tax incentives can work generously for your clients.

By Jamie Golombek, Vice President, Taxation & Estate Planning, at AIM Trimark Investments

The Conservatives made good on their pre-election promise to encourage the donation of publicly traded securities (including mutual funds and segregated funds) to charity by completely eliminating the tax on any accrued capital gains arising from the disposition to charity.

This change opens a huge window for you to broach the topic of philanthropy with your clients in a way that can significantly benefit the client, the advisor, and, most importantly of course, the charity. Almost 10 years ago, the government introduced enhanced tax assistance for donations of publicly listed securities to charities. Under the old (pre-budget) rules, if an individual donates eligible securities, only 25% instead of the usual 50% of any capital gains triggered by the sale of those securities had to be included in the individual's income.

To encourage additional donations of listed, publicly traded securities to charitable organizations and public foundations, the budget proposed to completely eliminate any capital gains tax payable on the donation of these securities to charities by reducing the capital gains inclusion rate for such donations to zero.

While there was some speculation that this donation rule would be retroactive to January 1, 2006, the federal government announced these new rules would apply only to donations of eligible securities made on or after May 2, 2006.

### Donation Tax Credit

Before reviewing the new opportunity in detail, let's take a quick look at how the basic donation credit rules work.

Donations to a registered charity in Canada are eligible for the donation tax credit. For the first \$200 of donations made by an individual in the year, the federal donation credit in 2006 is 15.25% of the amount given. (This credit is increasing to 15.5% for 2007 and beyond, as announced in the recent federal budget.)

Each province also provides a provincial donation tax credit. For example, the Ontario provincial credit is an additional 6.05%, for a combined total credit of approximately 22%. In other words, Ontarians would

be entitled to about \$44 back from the first \$200 of annual donations. It gets even better. Once you've made at least \$200 of donations in any year, the donation credit jumps to 29% federally, plus between 11% and 18% provincially, depending on your income tax bracket and whether you are subject to the high-income surtaxes in your province.

So, for donations in excess of the first \$200, you would get back at a minimum, 40% of the amount you donate. Given that the donations are in the form of tax credits (a credit is a reduction of tax owing) as opposed to tax deductions (a reduction of taxable income), the credits are essentially worth the same for low-, middle- and high-income earners (ignoring the effect of any high-income provincial surtaxes).

### Mutual Benefit

Compare tax-savings pre- and post-federal budget.

	Cash Donation (A)	In-kind Donation Pre-budget (B)	In-kind Donation Post-budget (C)
Fair market value of donation	\$100,000	\$100,000	\$100,000
Adjusted cost base (assumed)	(\$20,000)	(\$20,000)	(\$20,000)
Capital gain	\$80,000	\$80,000	\$80,000
Taxable gain (50% vs. 25% vs. 0%)	\$40,000	\$20,000	0
Tax on capital gain (at 45%) (A)	(\$18,000)	(\$9,000)	0
Tax benefit of gift (at 45%) (B)	\$45,000	\$45,000	\$45,000
Net tax benefit (A + B)	\$27,000	\$36,000	\$45,000
Tax savings from donating in-kind instead of cash		\$9,000	\$18,000

Source: AIM Trimark Investments

## A Case Study

To understand the impact of the new rule, let's assume one of your clients, Mark, currently owns mutual funds that have a fair market value of \$100,000 that he purchased many years ago for \$20,000 (see chart below). He is considering donating these mutual funds to charity.

If he simply sold the mutual fund first, he would realize a capital gain of \$80,000 and pay tax of about \$18,000 on the gain, assuming a top marginal rate of about 45%. His net benefit, taking into account the value of the donation credit less the tax on the capital gain, would be about \$27,000 (Column A).

Under the existing (pre-budget) rules, if he donated the mutual fund

units directly to charity instead of disposing of them first, this \$18,000 of capital gains tax would have been cut in half for a net tax benefit of \$36,000 (Column B).

Under the new rules, since the capital gains tax would be eliminated altogether on the donation of the mutual funds to charity, and since Mark would still be entitled to his full tax receipt for the \$100,000 contributed, his net benefit would be \$45,000 (Column C).

Note that while the new rules are proposed to be effective for donations made on or after May 2, 2006, as of the time of writing, they are not yet law as they must still be passed by Parliament and the minority government. But it would be highly unlikely

(and extremely unpopular) for any party to oppose the passage of these new rules.

What if you and your client want to continue to own this strong-performing mutual fund? No problem. Simply advise your client to repurchase the fund just donated.

By doing so, not only will your client get his donation credit, he won't pay capital gains tax on the disposition and his adjusted cost base will be "bumped up" or "reset" to the current fair market value, limiting any future capital gains tax on their ultimate sale to subsequent increases in value.



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## Travelling? Don't forget the Insurance

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notice from the Department of Foreign Affairs advising Canadians not to visit a certain country after the purchase of your coverage could qualify for reimbursement, as could the non-issuance of a travel visa for you or your travel companion for reasons outside of your control.

### Flight and Travel Accident

**Insurance** – this insurance covers the risk of accidental bodily injuries which result in dismemberment, the loss of sight, death, or the loss of hearing or speech within 365 days of the accident. Benefits are paid according to a schedule. However, exclusions for coverage can include but are not limited to war, intentional self-inflicted injury, military maneuvers, piloting, or contamination due to any act of terrorism.

### Baggage and Personal Effects

**Insurance** – this coverage can protect you from loss or damage to your baggage or personal effects,

replacement of travel documents, and delay of baggage and personal effects. Not covered by this insurance are animals, perishables, professional or occupational items, or any claim caused by wear and tear, or caused by imprudent acts or omissions.

Occasionally, additional riders are available with travel insurance policies. An entertainment benefit can reimburse you for expenses for a ticketed event you choose to attend as a result of being delayed beyond your original return date. A special event rider will reimburse you for expenses incurred to secure alternate arrangements to attend a wedding, ceremony or sporting event if your originally scheduled arrangements are delayed and would otherwise cause you to miss the event.

Travel insurance can be obtained through a number of ways. Coverage can be obtained through your bank, a travel agency, your credit

card, or even through your employer's group benefit package. However, it is important to know exactly what you are being covered for to ensure that your coverage is sufficient. For example, check the exclusions for pre-existing conditions on emergency medical insurance – are they limited to 90 days prior to departure, or longer? If you have insurance through your credit card, does the trip have to be purchased on the card in order to receive coverage? What are the maximum benefits? If you are depending on insurance offered by your employee benefits, is the coverage only available while traveling on business? What is the maximum length of a trip?

Travel insurance can't prevent emergencies from occurring while away from home, but it can minimize the risk of loss, so, the next time you are packing for a trip – don't forget the insurance.

# Title Fraud

By *Jamie Purves, Senior Vice President, Corporate Planning Associates*

**Y**ou don't even know it's happened. Like any other morning, you wake up and begin your daily routine. But today will be different. Today you will get a phone call that changes everything.

Bob, 58, was living a blessed life. A high-level businessman, Bob had most of the trappings of success; a nice home and cottage and his early retirement plan was on track. Not surprisingly he was envied by many but was also targeted by a criminal.

Bob's peaceful scenario took a turn for the worst when he received a call from a local bank. He was late on his mortgage payments. Funny thing is Bob owned his home outright. So began his long and costly journey as a victim of title fraud.

Here's how it happened. A fraud artist assumed Bob's identity using forged documents and secured a large mortgage using Bob's own credit rating. Channeling the mortgage money to a separate account in Bob's name, the fraudster was gone long before anyone knew anything was wrong.

A slightly more complex process has the fraudster forge Bob's signature turning title over to a fictitious name. Armed with a deed, the fraudster approaches the Bank for a mortgage, providing all necessary identification in the fictitious name. A title search confirms ownership of the property in the fictitious name.

Mortgage monies are transferred to a bank account and again the fraudster is off into the night.

Bob's nightmare, however, has just begun. Unlike credit card fraud where the financial institution will block the card and proceed with an investigation, title fraud puts the onus on Bob to prove that he is a victim too. This can be a long drawn out process measured in time, money and stress. All the while the bank holds a valid mortgage with the right to sell Bob's property to recoup its money.

Title insurance has been a standard in the US where the land registry system is antiquated. In Canada the Land Registry system is now computer-based, providing efficiency on the one hand but the opportunity for abuse on the other. Title Insurance is a no-fault indemnity policy, which means the insurer has the obligation to defend title against any claims whether through fraud or misrepresentation.

Statistics show the average case of real estate title fraud is \$300,000. Since 2000 title fraud claims have risen by 450% at one of Canada's title fraud insurers. While Ontario and Vancouver are considered the dominant markets for this activity, no homeowner is immune.

Title insurance provides peace of mind and security for a one-time premium based on the assessed

value of your home. Premiums can range from \$300-\$400 for homes up to \$500,000 and \$1.08/\$1,000 of value thereafter. Coverage can be arranged over the phone with the insurer or through a real estate lawyer and remains in-force for as long as you own the property.

Given that your home often represents one of your largest investments you may feel it wise to consider title insurance as a way to protect it as best you can.

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Corporate Planning Associates  
Suite 1700, 320 Bay Street  
Toronto, Ontario, M5H 4A6

Tel: (416) 364-7898

Fax: (416) 364-6438

## **Managing Editor:**

Sitara de Gagne

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