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Magazine

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Who wants to be a billionaire?

Baron Eric de Rothschild
answers the question
in a modest chat
with Richard Webb
and Levi Folk

Day stocker

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When offshore strategies sink

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Risky women Joanne Thomas Yaccato kills
the myth about women and the market



MISC.

000
113
332
98
69
11
73

PAID

INFORMATION

TERMS TO PAY

6 MONTHS
6 MONTHS
1 YEAR
1 YEAR
2 YEARS
2 YEARS
3 YEARS
3 YEARS
4 YEARS
4 YEARS
5 YEARS
5 YEARS

OPEN FOR PREPAYMENT
CONVERTIBLE PREPAYMENT
OPEN FOR PREPAYMENT
OPEN FOR PREPAYMENT
OPEN FOR PREPAYMENT
OPEN FOR PREPAYMENT
OPEN FOR PREPAYMENT
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OPEN FOR PREPAYMENT
OPEN FOR PREPAYMENT

THE EFFECT
VARIABLE RATE
FIXED RATE



CHOICE = FREEDOM

BY JOHN EITEL

In this installment we will discuss existing offshore structures, more on critical illness, privacy issues, and insurance solutions.

Before we engage some of these heavyweight topics, let us warm up with some mental gymnastics to reestablish what we already know to be true. We know the social services ‘net’ designed to ensure our quality of retirement in Canada is not there – period. We know the healthcare system designed to care for us is in a shambles and has become a deadly joke – in both official languages. We know the passing of assets to our children will be a crippling tax shock when that final tax return uncovers the true meaning of unrealized capital gains. We know if we do not start taking control of our own situation and using the system to bullet-proof ourselves, it will be too late and too bad for our families and for ourselves.

But before we get the razor blades out, let us remember who we are. This planet and first world civilization has never grown and accomplished so much in its history as it has with us. We are the most powerful demographic this world has ever seen. We still have our fingers on the economic trigger and the control of votes. We have a history of getting things done and our good judgment tells us this is our last kick at the control can. That is how human beings make decisions that work. They employ history and good judgment in the face of the authentic truth.

OFFSHORE

Unfortunately, for those of you who are already offshore in your structures, Trusts no longer work. The government has magically made trust capital 'income'. You see, there is no capital tax, just income tax. Now that they can call the money 'income' and they can 'deem' (another word for divinely invent) it to be a Canadian asset, it is therefore taxed on its worldwide income. Those of you who are in this situation must make changes that will put your estate planning back "on side". This is called sanitizing the structure. Do not be fooled. As far reaching technology improves for us, so does it for Revenue Canada. You must live by the rules. Rules are good; they show us how to fix it.

I am sure that many of you are already set up in foreign jurisdictions and that is fine. However, I have a serious concern for those of you who simply have a bank account offshore. Be very careful. If your death should occur and there is no mechanism of how this wealth is to be passed on to a beneficiary, you are dead in more ways than one. These are international jurisdictions that pride themselves on secrecy. Without the proper client/banker/lawyer rapport in place, that money will stay in the offshore bank forever. Banks do not make it their business to hunt the world looking to give their money away. And it is their money unless you are properly positioned. Offshore is about relationships not transactions.

Offshore works and works well. But the foreign jurisdiction is only concerned with its own laws. In most cases, the facilitators 'over there' are not familiar with the laws and ramifications in Canada. International estate planning is not for rookies. Make sure your Canadian facilitators have a solid and successful history and are not some starry-eyed multi-level junkie looking to win a boat ride to the Bahamas.

BIG BROTHER

This subject is vast and subjective. Your personal privacy is the one thing that has the possibility of being lost in the New World order. For years governments have wanted to know what we do and what we think. I mean, how long ago was it when they made sure your Social Insurance Number was required

on everything from your bank account to drivers license and everything in between. It is not just the government; there are a lot of unscrupulous people out there. It is an intimate violation when someone rummages through your credit rating, bank accounts, driving record, etc. Personal privacy and freedom rights are precious.

However, here is some good news. My research reveals that even the most paranoid privacy groups state private enterprise will always be one step ahead. Some privacy in a real sense, will always be available. You just may have to pay for it like any other service. For example, you know they charge you to have an unlisted number and not be in the telephone book. It used to be no charge and they were happy to save the ink. Now that privacy is being recognized as a commodity, it is for sale.

Here is a privacy and control issue that I will offer for your consideration: The disappearance of international currencies. Think about the Euro Dollar. The Euro Dollar (once it is up and running) will displace fourteen different currencies from fourteen different countries. There is privacy in a multi-currency world. If this trend were to continue until there were only three currencies in the world (as some have suggested), a Euro, an American, and an Asian dollar, coupled with a cashless global society, activity tracking would be much simpler. Where you sleep, where you eat, where you go would be available to those who want to know. Now, I do not want my words to play into the hands for the zealots of eschatology (there is a word) or the illuminate, but, whenever we try to standardize a healthy diversity, the things that make us unique are at risk. At the very centre of the mystery and romance of our uniqueness, be it a person or a country, lies the beating heart of privacy. Just a thought.

CORPORATE CANADA

As more Canadian companies become globally savvy, the more profitable they will also become. A company, like a person, is a resident of Canada and taxed on their worldwide income. There are strategies available that are able to isolate the international portion of your Canadian company. This will dramatically reduce the tax on those international sales.

Part of the education curve for entrepreneurs should be learning how to utilize the 'double taxation' treaty arrangements available to Canadians. (See Investment.com's feature on taxing e-commerce.) This new economy is full of brilliant young minds busy building and creating. However, before global strategies are considered in the planning phase, the venture capitalist and stock-brokers have these young entrepreneurs housed in a Canadian corporation, with no regard to the use of a foreign affiliate. This leaves few options for international tax planning. Once a Canadian company has an historic business with an account, it cannot just be transferred to a 'foreign affiliate' to better its tax position. It will be considered to be the disposition of a Canadian asset and taxed accordingly.

A few strategic changes in the early stage planning will make a substantial difference to the cash flow and ultimate wealth of the company and its shareholders. By creating a 'foreign affiliate' in a timely fashion, the international sales can be isolated in a 2.5% tax jurisdiction and the remaining profits repatriated back tax-free to the Canadian parent. Timing is everything. It must be part of your overall global planning and not a knee-jerk reaction to an international contract you have just secured.

The privilege that we enjoy in this treaty is so demonstrative that the other OECD countries are openly complaining that Canada has an unfair advantage in the world of trade. They are putting pressure on our government to shut it down. History and good judgment should tell you where the Canadian businessman will come out in this bureaucratic shoot out. "Whatsoever thou doest, doest quickly". There will be a 'grandfathering' clause here but you must be on board. Look into this.

INSURANCE

The only versatile, mobile, tax-free vehicle left on the Canadian financial scene is insurance. The undisputed champ and deliverer of the planned estate made whole. (Read about planning estates and insurance on the web at Investment.com.) With the emphasis on 'planned'. While this product can solve the most complicated business and personal succession problems, it is also flexible enough for the most pedestrian of concerns.

For example: Never buy bank mortgage insurance, especially if the premium you pay is constant or level premium. In that case, the banks set their rate at the top of the debt load (the most expensive). Even though the debt (mortgage) declines as you pay it off, you pay the same constant, high rate. In real terms you are getting less insurance. So the only thing that is really declining here is your benefit.

If death should occur, the bank gets taken care of and your mortgage is gone. Who is the real beneficiary? The bank. When the family needs money after the death of the main provider and the only insurance was “bank insurance” on the house, where do they get the money they need? The bank might give them a new mortgage – if they qualify. And at what rate? Take care of yourself.

Buy your insurance from an insurance company. Deal with people who are interested in protecting you and your family. Someone who will be your advocate, not someone who’s major concern is protecting the banks assets and their shareholders. Always make sure the beneficiary is someone you know and love. What your family will need in the time of an emergency is money. Tax free money. Proper insurance allows your family to make the decision whether or not to pay off the mortgage. The bank can wait for the family to find the best path for them. Leave some options.

Allow for the power, control, and choice to be put back into the hands of the customer. Yeah, baby! This feels better. Maybe we change our lifestyle and rent out the house. Maybe we sell it and keep all the cash from both. Maybe, maybe, maybe. Options. Choices. Choices are freedom. The air is sweeter up here. See the Investment.com / Citizen’s Bank Net Worth Calculator on the web at <http://www.investment.com>

CRITICAL ILLNESS

There is much interest in this product, so let’s talk a little more about it. Previously, I mentioned the big three: Heart, Stroke, and Cancer. The coverage is actually better than that. It is just that heart, stroke, and cancer comprise 82% of the critical illnesses.

The rest of these conditions are also covered: Multiple Sclerosis, Blindness, Deafness, Loss of Speech,



John Eitel

**“The only versatile,
mobile, tax-free
vehicle left
on the Canadian
financial scene
is insurance.”**

Kidney Failure, Major Organ Transplant, Paralysis, Loss of Limbs, Coma, Parkinsons, Lou Gehrigs (ALS), Severe Burns, and Occupational HIV.

As usual, not everything is as easy as it looks. This is a double-edged sword. If you have had any of these maladies you are not eligible for this type of insurance. Insurance is a privilege not a right. The other factor that is taken into consideration is your family history. Smokers are welcome here, but the cost is approximately double that of the non-smoker.

Everyone who can own this should; single moms and dads, people with mortgages, self employed, widowed, singles. It has a business use for buy/sell agreements, key man, bank loans, loss of business, etc.

The problem with a critical illness is it is not like the flu, a cold, or a hang over. When you are sick with one of these listed illnesses or conditions you are incapacitated, flat on your back, unable to care for yourself. The effects of chemo and radiation are so devastating to the mind and the body that your recovery to full working status is, at the very least, 6 months away. Will your same job or the business still be there when you return? What do you think the bank will do about your (demand) operating line when they find out the

driving force of their repayment schedule is at home reevaluating his priorities in life and considering a trip to Mexico for coffee grind treatments? How long will your partners be happy to send home the same size paycheque? Is it fair to ask them to do so?

Recovery is no day at the beach either. You will need all of your strength to get well. This becomes difficult if you are constantly worried about where the money will come from for the rent or mortgage, or feel you are a burden on your loved ones. Getting better requires help. If you cannot afford healthcare workers to cook, clean, bathe and medicate you, then some family members will have the job. Believe me, it is a full time job. Who do you choose to quit their job and put their career on hold to care for you – your son or your new daughter-in-law?

But not to despair! Remember who we are. We get things done. By the year 2025 the illnesses listed above will have been irradiated from the human species. With the cracking of DNA nothing can stop us now. Cures are coming in by the bushel (kilo) full every day. This new technology is driven by medicine and business, driven by venture capital, driven by the NASDAQ, driven by..it does not really matter. The important thing is, it is happening. Stroke survival rate in 1971 was 11%, today it is 75%. Very few people die of initial heart attack anymore. We are still having them, but we are surviving. Cancer’s days are numbered. And we as a race are on the topside of these modern day plagues that have been robbing us of precious times forever.

This is the last of the planned series of articles involving international and domestic tax-free planning. My hope is that this series has been informative and educational. Your questions and comments have been and are still more than welcome. Many thanks to Linda, Mina and Quinn who help me to colour inside the lines. ■

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Links to all the web sites mentioned in this article can be found at: www.investment.com/magazine/choice

Letters



Investment.com encourages your questions and comments. Your welcomed input helps us ensure each issue is relevant and interesting to our readership. John Eitel's Offshore...Onshore article, in our Winter 2000 issue, drew a vast response with letters, emails, and faxes arriving from across the country. Here are some excerpts...

"...I was so relieved to find I could relate to someone about the business of future family investment..."

Linda Barnett, Toronto, ON

"I think it is very informative and timely for a whole generation of people approaching the latter part of life...to pass some legacy onto our children with the minimum of tax bite."

Edward Cheng, via email.

"It is true that the Superintendent of Financial Institutions Canada regulates and supervises federally chartered insurance companies; however, it is CompCorp (Canadian Life and Health Insurance Compensation Corporation) that provides Canadian policyholders with protection, within limits, against loss of policy benefits in the event of the failure of their insurance company."

Linda Grasley, Secretary-Treasurer, CompCorp.

"Thank you for the very informative and interesting article on placing insurance on the parents...It's an idea a former life insurance agent passed on to me and it seems to work quite well."

Lowell Bannell, Canada Life, via email.

"I enjoyed your views of offshore planning techniques and the benefits of using insurance policies as an onshore planning technique."

Tim Tremain, via email.

"Great reading and thought provoking. I agree with your writings."

Norm Steele, via email.

"Thank you for pointing out the benefits of insurance. I have never really considered that as a vehicle for my mom."

Roy McDowall, via email.

"I really enjoyed your article in Investment.com magazine. It was very educational."

Dorothy McDonall, via email.

"John, congratulations on the magnificent article which brought some tears."

Victor Williams, via email.