

Introduction to Trusts

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Introduction to Trusts

OVERVIEW

Trusts are used on an ever-increasing basis to plan for the wealth and succession objectives of medium and high-worth clients. The advisor with the ability to assist with that process creates the opportunity to establish a long-term, potentially intergenerational connection with a client and their family; provided their strategy considers recent tax changes in the planning process.

The Introduction to Trusts course offered by Knowledge Bureau covers everything from basic trust mechanics to essential details on trusts for disabled beneficiaries.

APPROACH

Trusts are used on an ever-increasing basis to plan for wealth and succession objectives for medium and high worth clients. An advisor who can assist with that process enjoys the opportunity to nail down long-term, intergenerational connections with clients and their families.

WHY IS THIS CONTENT ESPECIALLY TIMELY AND/OR IMPORTANT

Recently updated, the Introduction to Trusts course offered by Knowledge Bureau offers everything from basic trusts mechanics to trusts for disabled beneficiaries.

Recent changes include an expansion of the reporting requirements for all trusts, including trusts with no income and bare trusts. Understand the impact of these rules, along with a copy of the T4013 T3 Trust guide and T3 Schedule 15 so that you can help your clients stay onside.

Every financial advisor who discusses tax, financial or investment plans with clients should have a basic understanding of the taxation of trusts in order to discuss estate planning options with clients. This course provides a detailed primer in the subject area, featuring common true-to-life scenarios.

WHAT YOU WILL LEARN?

You will come to understand the basics of trusts and learn how to explain them to clients. You'll also learn how to avoid probate fees using alter ego trusts and RRSP trusts, and reduce income taxes using charitable remainder trusts, estate freezes, and testamentary trusts. Among the subjects covered is learning how to protect children from gold-diggers, protect wealth from creditors, and safeguard beneficiaries from poor financial judgment using control designed trusts. Also covered is learning to help clients with disabled beneficiaries. You will also learn about graduated rate estates and utilizing capital and business losses. Identifying opportunities and needs for insurance products as part of trust planning is a subject area as well.

SCOPE OF THE CONTENT:

Chapter 1 | Basic Trust Mechanics

Learn how a trust works, how it fits into the legal landscape, and what documents are necessary to create a trust.

Chapter 2 | Trusts as Mechanisms to Exert Control

Learn to analyze trusts as efforts on the part of the settlor to exert control over the world around the settlor, including measures to control the ultimate destinations of wealth through subsequent users, the conduct of beneficiaries, and the conduct of the government. Understand the role trusts can play in estate planning.

Chapter 3 | Basic Tax Treatment

Learn the basic treatment that a trust receives under the Income Tax Act (Canada), the tax filings required for a trust, how income is allocated to beneficiaries, how to decide what province or territory will have income tax jurisdiction over the trust, and basic information relating to tax credits and exemptions that apply.

Chapter 4 | Testamentary Trusts

Learn how a testamentary trust is structured, the various tax advantages attaching to it, and a variety of planning opportunities available through the use of a testamentary trust.

Chapter 5 | Inter Vivos Trusts

Learn how inter vivos trusts are used for estate planning, and the income tax implications for the settlor of the trust, the trust itself, and the taxpayers.

Chapter 6 | Charitable Remainder Trusts

Learn how a charitable remainder trust is used to reduce income taxes now for a gift that takes effect in the future.

Chapter 7 | Alter Ego and Joint Partner Trusts

Learn the necessary elements to qualify a trust as alter ego or joint partner, the special tax treatment available to the settlor and available to the trust itself, how to manipulate income attribution, planning purposes that drive the use of such trusts.

Chapter 8 | Insurance and RRSP Trusts

Learn how to fund a life insurance trust using a beneficiary declaration, the different types of documents that can be used to establish the terms of the trust, critical errors that can be made in selecting particular insurance policies to fund insurance trusts, and planning general tax planning strategies pertaining to insurance trusts. The student will also learn the basic structure of a “RRSP” trust, the circumstances where such trusts might be advisable, and the advantages and disadvantages that they entail.

Chapter 9 | Spousal Trusts

Learn structural requirements for a spousal trust, the special and preferential tax treatment available to qualifying spousal trusts, the various planning purposes that can be pursued, situations where spouse trusts are warranted, application in second marriage situations, common drafting errors made in establishing such trusts.

Chapter 10 | Trusts for Disabled Beneficiaries

Learn how trusts are used to improve the lives of disabled beneficiaries, special tax rules available to such trusts, strategies to deal with income, the impact on government income support and programs, and different strategies to use in different situations.

CHAPTER ONE

BASIC TRUST MECHANICS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will be able to identify and distinguish the key parties of a trust, the legal status a trust enjoys under income tax and other laws, the separation of legal vs. beneficial ownership, and the three requirements or “three certainties” necessary for the establishment of a trust under the laws of Canada. The student will also learn the types of documentation used to create a trust.

NEW SKILLS TO BE MASTERED:

Awareness of how a trust works, how it fits into the legal landscape, and what documents are necessary to create a trust.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What is a trust?
- Who is the “settlor” of a trust?
- Is a trust a legal entity like a corporation or a flesh and blood person?
- What is the difference between legal and beneficial ownership?
- When is an “in-trust” account a trust?
- What is a trust deed?
- What is a trust declaration?
- What is a trust agreement and how does it vary from a deed or a declaration?

CHAPTER 2

TRUSTS AS MECHANISMS TO EXERT CONTROL

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn to analyze trusts as efforts on the part of the settlor to exert control over the world around the settlor, including measures to control the ultimate destinations of wealth through subsequent users, the conduct of beneficiaries, and the conduct of the government.

NEW SKILLS TO BE MASTERED:

A broader understanding of the role trusts can play in estate planning.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- How can a client give an asset away but keep direct or indirect control of it?
- How can a client take care of a spouse or other beneficiaries before passing assets to other beneficiaries?
- Can a trust be used to manipulate the conduct of family, friends and other beneficiaries?
- What limitations are there in the effort to exert control?
- To what extent can the government be manipulated through the use of trusts?
- What is the obligation of a trustee to the beneficiaries of the trust?
- What is the “even hand doctrine?”
- Can a trustee take profits without disclosing them?

CHAPTER 3

BASIC TAX TREATMENT

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn the basic treatment that a trust receives under the Income Tax Act (Canada), the tax filings required for a trust, how income is allocated to beneficiaries, how to decide what province or territory will have income tax jurisdiction over the trust, and basic information relating to tax credits and exemptions that apply.

NEW SKILLS TO BE MASTERED:

Awareness of basic tax treatment of a trust, and the ability to divide trusts into those which have high income tax rates and those which have lower income tax rates.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Is a trust a separate taxpayer?
- What kind of tax return does it have to file?
- How does the deemed realization at twenty-one years impact on income taxes?
- How does the deemed realization rule compare to other rules?
- When is income taxed in a trust?
- When is income taxed in the hands of the beneficiaries?
- Can income be paid to beneficiaries but still taxed in a trust?
- How are capital distributions made and taxed?
- In what province or territory will a trust be taxed?
- Is a trust subject to minimum tax?
- Can a trust have a deduction for charitable gifts?
- Can a trust claim a principal residence exemption?
- Can a person be taxed for non-cash income from a trust?

CHAPTER 4

TESTAMENTARY TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn how a testamentary trust is structured, the various tax advantages attaching to it, and a variety of planning opportunities available through the use of a testamentary trust.

NEW SKILLS TO BE MASTERED:

Identifying client situations where income tax savings can be generated through the use of a testamentary trust.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What particular tax rules apply to a testamentary trust?
- How do income designations add additional advantage?
- What is the tax year of a testamentary trust?
- How does this style of planning impact on probate avoidance strategies?
- What kind of trusts qualify as “testamentary?”
- How does a testamentary trust lose its preferred status?

CHAPTER 5

INTER VIVOS TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn how *inter vivos* trusts are used for estate planning, and the income tax implications for the settlor of the trust, the trust itself, and the taxpayers.

NEW SKILLS TO BE MASTERED:

Identifying client situations where income tax savings can be generated through the use of an *inter vivos* trust.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- When is a trust properly described as “*inter vivos*?”
- When will the settlor of the trust incur capital gains taxes at insertion?
- When will income earned by the trust be attributed back to the settlor?
- What tax rate applies to *inter vivos* trusts?
- When might estate freezes be used?
- Is it possible to multiply access to the capital gains exemption?

CHAPTER 6

CHARITABLE REMAINDER TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn how a charitable remainder trust is used to reduce income taxes now for a gift that takes effect in the future.

NEW SKILLS TO BE MASTERED:

Identifying client situations where a charitable remainder trust might be to their advantage, and understanding situations where a charitable remainder trust would be ill-advised.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- When does a trust qualify as a charitable remainder trust?
- How is the donation receipt quantified?
- How are capital gains treated at death?
- How old should the settlor be before these trusts make sense?
- How can other income tax advantages be combined with the use of a charitable remainder trust?

CHAPTER 7

ALTER EGO AND JOINT PARTNER TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn the necessary elements to qualify a trust as alter ego or joint partner, the special tax treatment available to the settlor and available to the trust itself, how to manipulate income attribution, planning purposes that drive the use of such trusts.

NEW SKILLS TO BE MASTERED:

The ability to identify situations where an alter ego trust or joint partner trust might be to the advantage of a client, along with advantages and disadvantages in this type of planning.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- How old does the settlor have to be to set up an alter ego or joint partner trust?
- Does the twenty-one year deemed realization apply?
- How is the trust taxed at the death of the settlor?
- Can there be two settlors?
- Who is entitled to the income?
- Can income be retained in the trust?
- Can an alter ego trust fund a testamentary trust?
- How are these trusts used in jurisdiction shopping strategies?
- Can a charity be a capital beneficiary after the death of the settlor or the settlor's spouse?
- Can the settlor opt out of the capital gains roll-over when inserting property?

CHAPTER 8

INSURANCE AND RRSP TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn how to fund a life insurance trust using a beneficiary declaration, the different types of documents that can be used to establish the terms of the trust, critical errors that can be made in selecting particular insurance policies to fund insurance trusts and planning general tax planning strategies pertaining to insurance trusts. The student will also learn the basic structure of a “RRSP” trust, the circumstances where such trusts might be advisable, and the advantages and disadvantages that they entail.

NEW SKILLS TO BE MASTERED:

Identifying situations where a life insurance trust will add value to a client’s estate planning and flaws that can deny the client the benefits of such structures. Identifying circumstances where establishing a testamentary trust funded by de-registered proceeds of registered investments will be advisable.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Can the declaration refer to “all life insurance policies?”
- Should the policies be specifically described by policy number?
- Is it necessary to identify the trustees by given name?
- Does the settlor have to be the owner of the policy?
- When will an insurance trust be taxed as testamentary?
- Is it preferable to roll registered investments to a spouse?
- What is a “hybrid” trust?

CHAPTER 9

SPOUSAL TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn structural requirements for a spousal trust, the special and preferential tax treatment available to qualifying spousal trusts, the various planning purposes that can be pursued, situations where spouse trusts are warranted, application in second marriage situations, common drafting errors made in establishing such trusts.

NEW SKILLS TO BE MASTERED:

To identify situations where a spousal trust will be to the advantage of a client and their family.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- How are the income provisions of a spouse trust properly structured?
- How are the capital provisions of a spouse trust properly structured?
- Are capital gains taxes payable by the settlor when assets are inserted?
- Is there any choice involved in the capital gains treatment?
- How are capital gains treated at the death of the settlor?
- How does this planning interact with probate avoidance strategies?
- Can or should registered investments be used to fund a spouse trust?
- Can income be kept in a spouse trust?

CHAPTER 10

TRUSTS FOR DISABLED BENEFICIARIES

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn how trusts are used to improve the lives of disabled beneficiaries, special tax rules available to such trusts, strategies to deal with income, the impact on government income support and programs, and different strategies to use in different situations.

NEW SKILLS TO BE MASTERED:

To help clients plan in circumstances where they have a disabled heir.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What is a “Henson trust?”
- How do provincial rules impact this type of planning?
- Does this planning work across Canada?
- What is the preferred beneficiary election?
- Can these trusts be either testamentary or *inter vivos*?
- Can registered investments be used to fund these trusts?
- What is a “springboard” strategy?