



September 2026

The Income Tax Bond

Meet Dan and Susan. At 65 and 63, they're finally ready to kick back, relax, and enjoy a well-deserved retirement. They've played their financial cards right: their house is completely paid off, and they've managed to stash away a healthy \$500,000 in their RRSPs. Like most parents, their ultimate goal is to leave as much of that nest egg as possible to their two kids. They already know that their home will pass to their children tax-free, which is fantastic news. But they've also realized that their retirement accounts are a completely different story.

The Hidden Tax Bomb - While both Dan and Susan are alive—or even when the first spouse passes away—there isn't really a problem. Thanks to the way Canadian tax laws work, RRSPs and RRIFs can seamlessly roll over to a surviving spouse tax-free. That conveniently pushes the tax bill down the road. But what happens when the second spouse passes away? That's when the Canada Revenue Agency (CRA) comes knocking, and the resulting tax bite can be massive. Let's look at the math:

- Dan and Susan plan to convert their RRSPs into a RRIF, drawing an income of \$2,500 a month (increasing by 1.5% each year to keep pace with inflation).

- Based on their life expectancy, they'll have about \$465,000 left in the account when the second spouse passes.

- With top provincial tax rates sitting near 50%, the CRA is going to take a gigantic slice of that pie.

Once the money is squeezed through that unavoidable income tax filter, their two kids will only be left with about \$116,250 each. Ouch.

Enter the "Income Tax Bond" - Fortunately, there's a clever workaround to this heavy tax burden: a unique type of joint life insurance policy known as joint-and-last-to-die. Because it only pays out after the second spouse passes away, the premiums are incredibly economical. Think of this policy as an "Income Tax Bond." Here's exactly how it works for Dan and Susan:

They purchase this "bond" to cover their estimated \$235,000 future tax bill. Since they are both non-smokers, the cost to carry this bond is surprisingly low—think of it as paying a simple interest fee of about 1.5% a year, which comes out to \$300 a month. When the second spouse eventually passes away, the bond matures and pays the full \$235,000 to their kids, completely tax-free. The money arrives exactly when it's needed most: right when the CRA's tax bill is due.

The Final Result - To make this happen, Dan and Susan just pull a slightly higher income from their RRIF to cover that \$300 monthly premium. Sure, this means they'll leave a little less in their RRIF at life expectancy (around \$425,000 instead of \$465,000). But because the Income Tax Bond swoops in to pay the taxman, the full remaining RRIF balance goes straight to their kids.

The end of the story - Each child inherits about \$212,500 instead of \$116,250. And if the bond happens to pay out more than the final tax bill requires, the kids get to keep the extra cash, too. Now that's what we call a brilliant retirement win!

Want to maximize your kids' inheritance? Contact our office!

Marvin Nickel, CFP, CIM

Nickel Financial Consulting Inc. - Sentinel Financial Group

Ph: 403.975.2010 - <https://www.marvinnickel.com> - marvin@marvinnickel.com

