My Succession

UBS Wealth Planning

Imagine this: You are on a track running a relay race, and just as you approach the runner of the next leg, you suddenly throw the baton way up in the air. Imagine the baton is part of the trillions worth of assets due to be passed on to the next generation, amid the ongoing greatest transfer of wealth in history. Who could bear to see the results of a lifetime of effort erratically scattered to the four winds?

And yet, surveys show that only roughly half of investors globally are prepared and have taken proper action to ensure a smooth and successful transfer of their assets to their successors[1]. Why is that?

It is true that carefully setting out your wishes and planning your succession cannot be done overnight. It is a multi-disciplinary process – and probably not quite an upbeat one – that requires a deep understanding of certain key parameters.

Although we do not provide tax or legal advice, our aim in this document is to help you identify the most important issues and raise the most important questions that are relevant to you. We strongly recommend you then discuss these with your external tax and legal advisors, taking account of your personal circumstances.

Your assets

Having a clear picture of your wealth and its components is the first critical step toward an effective succession plan. Documenting your legacy, however, may not be as easy as it sounds.

Assets can range from cash and portfolio investments, bearing an obvious value, to more complex ones, like a family business of which you are the main shareholder and key decisionmaker. And from tangible, like a house or an art collection, to intangible—think about the lessons learned throughout a lifetime that you may want to pass on to your heirs—or even digital ones: Have you ever wondered what will happen to your e-mail and social media accounts, or your cloud storage subscriptions when you are no longer around?

Your beneficiaries

The second step is to identify who you want your heirs to be and decide what you wish to leave to whom. Benefactors tend to find it challenging to divide their assets fairly. One might wish to favor an heir with whom they had a closer relationship, while another might want to provide for a beneficiary that has a greater economic need or who shares the same values—or even perhaps a charity.

The situation can get more complicated when "blended" families or diverse assets are involved. It may seem logical for the eldest child to acquire and run the family business, assuming they may have already been working for it and have been prepared to take over this role. Yet to avoid future family strife, a succession plan needs to be fair and be perceived as fair by all children and stakeholders. And what better way to ensure this than through an open, proactive, and sincere dialogue. As George Bernard Shaw said: "The

[1] UBS Investor Watch, October 2022

single biggest problem in communication is the illusion that it has taken place."

Your tools…
Once you have identified the "what" and "to whom" of your planned wealth transfer, it will be time to consider "when" and "how." A succession plan can take several forms.

In many cases, a Will or an inheritance contract could be the most straightforward and uncomplicated means of laying out your wishes as to how you intend your wealth to be allocated to your heirs upon your death. In other situations, setting up a structure like a trust or foundation may seem more appropriate, particularly if specific, more arduous needs and goals are at stake. A beneficiary may be underage or unfit for inheriting a significant amount of assets all at once; or it may be expedient to clearly separate private from business assets under distinct structures. A combination with a life insurance policy providing additional liquidity may prove to be an efficient way for ensuring a more balanced inheritance among the heirs or for dealing with certain financial needs linked to the inheritance. In certain circumstances, it can even make sense for specific assets to already be passed on to the beneficiaries through (a) lifetime gift(s), rather than in the event of death.

…and the hurdles
When starting the process of shaping your succession, it may come as a surprise that your freedom to dispose of your assets as you please can be relatively limited. This is because of legal and tax considerations; and the more countries involved (e.g., nationality and residence of the benefactor and beneficiaries, location of the assets), the more such factors come into play. Some examples: Depending on the law that governs your succession, you may need to adhere to forced heirship rules, restricting your free choice of heirs. A trust or similar structure may not be recognized in the countries involved, placing your beneficiaries in uncharted waters, and jeopardizing the smooth fulfillment of your wishes. Unexpected inheritance or estate tax liabilities may be triggered due to the location of the assets, even if neither yourself nor your heirs are connected to that country.

How UBS can help
In the end, a succession plan is much more than a simple transfer of assets. It is a holistic process, contingent on the thorough understanding of all relevant dimensions of an individual's life; a transition, defined as a passage from one state or stage to another. As such, it is anything but static. Times and laws change, revealing the need for regular reviews and updates. True long-term success can be achieved through our full My Life offering:

1. **My Family**, the best way to ensure the people closest to you are well off
2. **My Protection**, security from multiple risk factors and disruptive events
3. **My Company**, a proven strategy to ensure business success
4. **My Taxes**, factoring the tax aspects in your decisions
5. **My Retirement**, this well-earned time deserves the best planning
6. **My Succession**, setting the path for your assets and values beyond your lifetime

There may be several options available to you. At UBS Wealth Planning, we can discuss these to identify your specific circumstances and personal preferences that you can then follow up with your own tax or legal advisor. Please note that UBS does not provide legal or tax advice.

For further information, please contact your UBS Client Advisor, who will be happy to put you in touch with our specialists in UBS Wealth Planning.

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The Tax Act includes rules (the "Offshore Investment Rules") that may require an amount to be included in the income of an investor that holds an "offshore investment fund property". The Offshore Investment Rules may apply where (i) an offshore investment fund property derives its value primarily from "portfolio investments" in certain assets, and (ii) it may reasonably be concluded that one of the main reasons for the investment is to derive a benefit from portfolio investments in these assets in such a manner that taxes on the income, profits and gains from the assets are significantly less than the tax applicable under the Tax Act if such income, profits and gains had been earned directly by the investor.
If the Offshore investment Rules apply, the investor will have an income inclusion in respect of each month equal to the "designated cost" of the property to the investor that is subject to the rules at the end of the month multiplied by 1/12th of the sum of a prescribed rate of interest plus 2 %. The prescribed rate of interest is linked to the yield on 90-day Government of Canada Treasury Bills and is adjusted quarterly. The income inclusion will be reduced by the investor's income for the year (other than capital gains) from the offshore investment fund property determined under the other provisions of the Tax Act. Accordingly, if the Offshore Investment Rules apply to an investor, the investor may be required to include in taxable income amounts that the investor has not earned or received. These rules are complex and their application depends, to a large extent, on the reasons of an investor for acquiring or holding the investment. The foregoing summary provides a general description of the Offshore Investment Rules, and should not be construed as advice to any particular investor regarding the implications of the Offshore Investment Rules in the investor's particular circumstances. Investors are urged to consult their own tax advisors regarding the application and impact of the Offshore Investment Rules in their particular circumstances.
The rules in respect of non-resident trusts will not apply in respect of "exempt foreign trusts" (as defined in the Tax Act), which would, subject to detailed provisions, generally include commercial trusts. Where, however, a non-resident trust is an exempt foreign trust because it is a commercial trust, an investor (x) that holds, either alone or together with (i) any persons not dealing at arm's length with the investor or (ii) any persons who acquired their interest in the trust in exchange for consideration given to the trust by the investor, at least a 10% interest (as defined and determined based on fair market value) in such trust, or (y) that has contributed "restricted property" (as defined in the Tax Act) to such trust, will be required to include in income a percentage of that trust's "foreign accrual property income" (as defined in the Tax Act). Other investors in a commercial trust may be subject to the Offshore Investment Rules discussed above. Investors should consult their own tax advisors in this regard.
If the total "equity percentage" (as defined in the Tax Act) of a Canadian investor (and related persons) is 10% or more in a particular non-resident corporation, the investor may be subject to the rules in the Tax Act which (i) require the inclusion of a percentage of the foreign accrual property income of the corporation in computing the income of the investor, rather than the application of the Offshore Investment Rules, and (ii) could result in withholding tax being due by an investor that is a corporation resident in Canada for purposes of the Tax Act. Investors should consult their own tax advisors in this regard.

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