

**Tax Tip**  
**Week of August 9, 2010**

**Alter Ego Trusts**

An alter ego trust is a sophisticated estate planning tool that can be established once an individual reaches the age of 65. Such trusts have the following characteristics:

- assets transferred to the trust are still under the control of the individual who originally owned the assets
- any income or capital gains generated by the trust will continue to be taxable in the individual's hands
- upon the individual's death, the trust will indicate how the assets will be distributed

Upon the individual's death, an alter ego trust allows the assets to be transferred via the trust mechanism, rather than through the deceased's will. The trust offers two potential advantages to the individual. Firstly, it avoids probate fees since the assets are not included in the individual's estate. Secondly, since the probate process can be avoided, it provides a level of secrecy on asset distribution that may not otherwise be available.

The key disadvantage of such trusts arises on the death of the individual. Any capital gains that arise on the deemed disposition at death are taxed at the highest marginal tax rate, i.e., the individual does not benefit from the lower income tax brackets.

Alter ego trusts have a limited application and are normally used when an individual wants to make a distribution of assets upon death and ensure the confidentiality of such a distribution is maintained.