



Eligible Funeral Arrangements

Prepaying a funeral can have tax advantages

Eligible funeral arrangements are rarely discussed outside of the funeral director community, but there's a tax incentive to setting them up for clients who are inclined to make and prepay their funeral arrangements.

EFA's were established by the Canada Revenue Agency more than 20 years ago. Here's how it works. Up to \$15,000 can be set into an EFA for the sole purpose of pre-funding funeral arrangements. The CRA has specific rules and tax incentives outlined in Section 148.1 of the Income Tax Act's Income Tax Interpretation Bulletin: Eligible Funeral Arrangements (IT-531).

Contributions in an EFA earn interest that is tax exempt. This accumulated income is not counted as a relevant contribution under the EFA rules.

WHY SET UP AN EFA?

While most people consider the emotional advantages of an EFA, they are pleased to learn of the financial advantages as well. Prepaid funeral funds in an EFA are insured up to \$100,000 in the purchaser's name. Additionally, the EFA funds earn two per cent tax-exempt interest. This rate of return is better than the current rates on savings accounts and GICs. A woman I worked with had money in her savings account to pay for her eventual funeral arrangements. That savings account earned 0.5 per cent interest. When she learned that her money could be earning two per cent in an EFA, she arranged to set up her prepaid funeral and use the money from her savings account to fund her EFA.

If your clients live in Ontario, additional financial advantages are associated with an EFA. Effective July 1, 2012, The Funeral,

Burial and Cremation Services Act mandates that funeral homes in Ontario must guarantee the future cost of a fully prepaid EFA. Specifically, once a funeral home has received payment in full for the qualifying person's selected funeral services and merchandise, they are committed to providing those services and merchandise at the time of need in the amount on the current price list. The funeral home cannot levy additional charges to account for inflation.

Consider the following example. Simona preplanned and prepaid her direct cremation and four newspaper notices in 2008. The amount she put into her EFA was \$4,735. When she died in 2015, the value of the EFA, with two per cent interest, was \$5,399. The same funeral cost in 2015 was \$5,953, a difference of \$554, which was absorbed by the funeral home.

Conversely, if the funds in the EFA are in excess of the funeral cost at the time the funeral is provided, then the residual funds must be returned to the estate of the deceased.

In another example, Floyd preplanned and prepaid a traditional funeral, with one-day visitation and the funeral the next day at his church. In 2009 he placed \$10,500 as a single payment into his EFA. When he died in 2015, the total value of his EFA redemption was \$11,835 and the actual cost of the funeral was \$11,750. In this scenario the funeral home refunded \$85 to Floyd's estate.

WHO CAN ESTABLISH AN EFA?

An EFA can be established and maintained by a qualifying person or persons. The qualifying person must be at least 18 years of age, of mental capacity, and a resident

of Canada at the time the EFA was established. The qualifying person could move and be a non-resident of Canada after the EFA is established. A qualifying person could be the individual purchasing his own EFA, or her personal representative under the authority of power of attorney for property, a guardian, a trustee(s), or the Public Guardian and Trustee's Office.

An EFA is set up through a licensed funeral home via a licensed funeral director.

The sooner an individual sets up an EFA, the sooner they lock in and guarantee the future cost of their funeral arrangements. Additionally, it is usually easier for people to fund their EFA with earned income rather than retirement income.

As with life insurance and living benefits, the sooner an individual funds these plans the more advantageous. The combination of living benefits, life insurance, and an EFA helps your clients create a solid estate plan.

While end-of-life planning issues are not usually at the top of your clients' to-do lists, at some point we need to help them consider the type of funeral arrangements they would like to have in place to celebrate their life. Including an EFA in a holistic estate plan makes sense and will provide peace of mind for your clients. **E**

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