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HOW TO SPEND THOSE 'NEVER SPEND' DOLLARS

Give to charity with government funds

By Mark Halpern

"What we have done for ourselves alone dies with us; what we have done for others and the world remains and is immortal."

Albert Pike (1809-91) is better known for this thoughtful quote on the benefits of philanthropy than his exploits as a journalist, attorney and military career that included the Mexican-American War and the American Civil War. He was right: kind and generous people can be remembered forever. Just look at the many schools, art galleries and hospitals adorned with the names of benevolent donors.

There are countless reasons why people become donors. Some want to improve the world by eliminating disease or feeding the hungry; others wish to demonstrate appreciation for an alma mater or other organization that did something for them or a family member.

Sometimes it's an impulsive response to an emotional YouTube video that's gone viral, or a donor likes a particular event or project and receives the opportunity to have their name attached to it.

While the motives for philanthropy are plentiful, there are also many financial strategies available for the benefit of both donors and recipients. Some can involve a nominal financial outlay – like using government-supplied benefits to create an endowment, or make meaningful gifts to a grandchild.

Many people, including fortunate Investor's Digest readers, have more money than they will ever need or want to spend - what we call "never spend" money.

They now have a choice of leaving their money to family, charity and the tax department. Each of us can pick only two of those beneficiaries. The decision is easy for most of us, especially those who consider making charitable gifts that will endure for years.

You can also use the funds you have already invested and direct that money toward charity. This money includes your Canada Pension Plan (CPP) benefits or the income you have previously sheltered in a registered retirement savings plan (RRSP) or registered retirement income fund (RRIF).

Benefiting the estate

Avoid dismissing these funds as trivial. You can use that taxable money to fund a significant life insurance policy for the benefit of charitable causes you care about, with the option of saving a bundle of money now, or later, for the benefit of your estate.

Take the example of a husband and wife who came to see us, both 65, who receive monthly CPP benefits of about $1,100 each, totalling around $26,000 a year. They live in Ontario and enjoy considerable income from other sources, so they pay tax at the highest marginal tax rate of 53.53 per cent in the province.

They don't need the CPP money – which only gets taxed, reinvested and then, yes, taxed again. They explained their love of philanthropy and told us their life goals, which include creating a charitable legacy to inspire their children and grandchildren.

We suggested some little-known strategies to use the government benefits to enhance their giving goals and achieve considerable tax savings.

Strategy No. 1:

Policy Owned Personally – Tax Savings Later

We can create a charitable gift of $1.4 million using life insurance. The CPP benefits pay the premiums on a joint-and-last-to-die life insurance policy for $1.4 million.

The charity is the beneficiary and will receive the insurance payout upon the death of the second spouse. It will generate a $1.4-million charitable gift and the estate will receive a donation receipt for that amount. This will save the couple's estate about $700,000 in taxes.

Strategy No. 2:

Policy Owned by Charity – Tax Savings Now

As above, we can create a charitable gift of $1.4 million using life insurance. In this case, the charity is both the owner and beneficiary of the policy.

The CPP benefit again pays the premiums on a joint-and-last-to-die life insurance policy for $1.4 million.

The couple receives an annual charitable donation receipt of $26,000 for the CPP benefits used to fund the insurance policy, totally eliminating the tax they now pay on their CPP benefits and replacing it with a large gift.

Strategy No. 3:

Donate RRSP/RRIF – By Will or Beneficiary Designation

Most people do not realize their RRSP or RRIF will be fully taxed as income (at up to 54 per cent in Ontario) on their death.

A tax-free rollover is available to a surviving spouse, but the RRSP/RRIF is fully taxed upon the second death. So basically, a $1-million RRSP/RRIF will be worth only $460,000 to your heirs, after taxes.

A better strategy is to name the charity as the beneficiary of the RRSP or RRIF, which eliminates all RRSP and RRIF taxes.

To replace the $460,000 that would have gone to the family, consider using some of the CPP benefit to fund a $500,000 life insurance policy to fund the tax, or else, you can use the CPP benefit to purchase a $1.4-million joint-last-to-die insurance policy, with the family as the beneficiary.

On death, the life insurance policy pays out $1.4 million tax-free to the family. This represents a gain of $940,000 more for the family (compared to $460,000).

Note that money allotted in a will may have to go through probate, and there could be additional costs to pay. Seek advice from an experienced lawyer, accountant or estate planning professional.

In every example above, donors used money received from the government to fund their charitable aspirations. They didn't have to reach into their own cash flow and were able to minimize their own tax liabilities while creating a sizable gift.

A win-win by every measure

As lawyers, accountants, insurance and investment advisors, and so on, it is our collective professional responsibility to provide clients with strategies to facilitate planned giving. We are, in many cases, the "gatekeepers" of giving.

Being philanthropic, whether from your own funds or through government benefits, is one of the most generous ways to help your family and the organizations you care about.

Aside from financial metrics, you will demonstrate, and teach by example, the importance of charitable values to younger generations.

They say the apple doesn't fall far from the tree. That holds true when it's not windy. But the world is changing so much today it can often seem like a hurricane against family values.

It makes more sense than ever to get started now on the path to creating your own family legacy. Please be in touch. We'd love to help you.

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