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ESTATEPLANNING

Charitable Giving and Tax Savings

CPP Philanthropy

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"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 (1809-1891) 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.

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Why donate?

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 is given 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 the 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 TaxLetter 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 for 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).

For the Benefit of Your Estate

Avoid dismissing those 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 about $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.

They don't need the CPP money – which only gets taxed, re-invested and then, yes, taxed again.

They explained their love of philanthropy and told us their life goals included creating a charitable legacy to inspire their children and grandchildren.

CPP Philanthropy

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

Strategy #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 on 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 their estate about $700,000 in taxes.

Strategy #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 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 #3: Donate RRSP/RRIF – By Will or Beneficiary Designation

Most people do not realize that their RRSP/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 on 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/RRIF, which eliminates all the RRSP/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 all the CPP benefit to purchase a $1.4 million joint-last-to-die insurance policy, with the family/estate 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 be paid. Speak with your lawyer or accountant.

Use the Government's Money

In every example above, donors used funds 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 sizeable gift. A win/win by every measure.

It is always my pleasure to share good philanthropic planning strategies when invited to speak to different groups about the best and most tax-effective ways to pursue philanthropic aspirations.

As a member of the Professional Advisory Committee for the Jewish Foundation, I was very proud to receive their 2017 Professional Advisors Award of Excellence. The recipient of this annual award is voted on by professional peers and recognizes tax, insurance and estate planning professionals who proactively encourage clients to consider charity as part of their estate and financial planning process.

It's our collective professional responsibility (lawyers, accountants, insurance and investment advisors) to provide clients with strategies to facilitate planned giving. We are, in many cases, the "gatekeepers" of giving.

Planned Giving

Earlier this month, I was invited back for the 3rd time by the GTA Accountants Network speak to their professional members. I co-presented strategies for retirement planning and charitable giving with Aneil Gokhale, Director of Philanthropy of the Toronto Foundation.

At a recent private function for a hospital foundation I explained the benefits of charitable giving to a select group of 40 wealthy donors. Afterwards, I was very pleased when an attendee approached me asking me how he could best help the hospital with an endowment of $100,000.

I explained that an endowment entails providing an irrevocable gift to either a private foundation or a donor-advised fund (DAF) within a public foundation. It's a particularly good idea when you want to create a legacy gift over a long period of time, rather than a one-time gift.

Under current tax rules, the endowment must disburse a minimum of 3.5 per cent of its asset value every year. Many will disburse higher amounts or not put a ceiling on distributions. This is generally not difficult for charities that enjoy multiple revenue streams and don't rely solely on investment payouts to support their organizations.

A DAF is said to be more flexible and a more cost-effective alternative than a private foundation. DAFs allow the donor to create a charitable plan and receive the tax savings now. It can also release funds to designated charitable beneficiaries over extended periods of time, ensuring a long-lasting legacy.

DAFs require only 24 hours to set up. Minimum contributions often start at $10,000-$25,000 and are usually created at the end of the year, allowing donors to take advantage of annual tax deadlines.

Once set up, DAF charitable sponsors handle all the administrative work, including record keeping, issuing tax receipts and administering grants. This allows donors to focus on their charitable goals, not compliance paperwork.

Private foundations can take about three months to set up, must maintain their own record-keeping and reporting, and pay for all the administrative and legal costs. They must also form a board of directors and convene regular board meetings.

There are other ways you can be generous to a cause that's closer to home -- your family. Perhaps your grown children don't need much financial help, but there are ways you can help your grandchildren.

Use your CPP benefits to start a Registered Education Savings Plan (RESP) for a young grandchild- to assist with the ever-increasing costs of education. If you add up the costs of tuition, student housing, books, school supplies, and others, Canadian students currently carry an average debt load of about $27,000, according to the 2015 graduating student survey by the Canadian University Survey Consortium.

Set aside a monthly amount for your grandchild in an RESP. Aside from seeing the funds growing tax-free, the government will top up the amount to the tune of $400 for each $2,000 of RESP investment.

You can also use your CPP benefit to fund a life insurance policy for a grandchild while they are young and healthy. The insurance is inexpensive. And the grandchild can obtain more coverage later if needed, building up a cash value every year that premiums are paid. The grandparents can put the ownership of the policy in the hands of the parents, or use other strategies to transfer policies to children or grandchildren without a taxable disposition.

Being philanthropic, whether from your own funds or through government benefits, is one of the most generous ways to help a family member or 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 for our families. It makes more sense than ever to get started today on the path to creating your own family legacy.

Please be in touch. We'd love to help you.

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®.
He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes.
His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you to take action. He will simplify the complicated so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or
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