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***ESTATE*PLANNING**

Cash-Value Life Insurance

What's In It For You?

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Let me begin by wishing you and your family a HEALTHY, happy, and tax-advantaged 2022.

I was delighted to turn the page on 2021, a miserable year. We are living through historic times, and as the world enters another (3rd) year of the Covid19 plague, it is more important than ever to take personal responsibility for your health and wealth. People have become painfully aware of their mortality, and the urgent need to adequately protect their health and finances.

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Regular TaxLetter® readers know about my passion for Philanthropy, the single greatest antidote to high taxation. As explained in earlier articles (June and Sep 2021) we create Accidental Philanthropists™ when people are given the opportunity to leave money to charity and family instead of the tax department. Receipts for charitable donations can offset up to 75 percent of taxes payable annually, and any unused portions can be carried forward for five years. The bigger opportunity and one much less known is using donation receipts for gifts made at death which can be used to offset 100 percent of estate taxes in the year of death and carried back one year.

This article examines some cases where clients saved millions in taxes permanent, cash-value Life Insurance for charitable purposes without tying up their money paying the premiums. We all have 3 possible beneficiaries: Family, Charity, and Canada Revenue Agency (the tax department), and you can choose just 2 of them. This strategy can be used to maximize giving to your favourite causes while funding estate taxes payable at death.

Life Insurance

A 70-year-old couple referred to us by their lawyer had an investment portfolio of $30 million and long history of investing in blue chip equities. They also had an estate tax liability of $5 million that would be due upon the death of the second spouse. They were very charitable and didn't want to reduce their assets substantially by making a major gift while they were alive, but would consider a planned- legacy gift after their deaths. They didn't want their money tied up in anything but marketable securities, the asset class they understood best and were comfortable with.

We acquired a Joint and Last to Die (JLTD) permanent, cash-value life insurance policy with an initial death benefit of $10 million. They deposited $500,000 from their investment portfolio into the policy and then used the equity of the cash surrender value (CSV) of the new policy to borrow back $500,000 from a chartered bank and reinvest in their stock portfolio. Because they were borrowing for investment purposes, they were able to deduct the interest expense and the net cost of pure insurance from their taxable income. They repeat this each year for 10 years. Upon their death, the insurance policy proceeds will have grown to $15 million and will be used to pay off the $5 million loan at the bank. The remaining balance of $10 million gets paid to their charitable foundation, producing a charitable tax receipt for $10 million that covers their entire estate tax liability of $5 million. They retained control of their money all along and will be remembered for giving $10 million to charity instead of $5 million to the tax department. The insurance policy serves as collateral to secure a loan with a Canadian chartered bank. In our experience, the borrowing power of the CSV on a Life Insurance policy from a tier one insurer easily exceeds that of other asset types like real estate, equities, mortgages, precious metals and cryptocurrencies. In most cases, the banks will advance up to one hundred percent of the CSV.

The loan proceeds are reinvested in their portfolio, and they pay only interest on the loan, which is tax-deductible. The outstanding loan with the bank is paid off at death using the Life Insurance proceeds, and the balance goes to the charity tax-free, which funds their entire estate tax bill. Less charitable readers need to know that this strategy can be used without the philanthropic components and should be considered for acquiring Life Insurance without tying up their money paying the insurance premiums.

Insured Philanthropy

A successful business owner with a $2 million tax liability told us his accountant had run out of ideas and sought our help. Most of his assets were illiquid and he didn't want to use cash on hand to pay the taxes. He had a stock portfolio worth $10 million, mostly cannabis. Because he had a very low cost-base, he was 'pregnant' with significant capital gains and understandably reluctant to sell any shares as that would trigger an immediate and additional tax liability

We helped him create a Donor Advised Fund (DAF) at a Community Foundation. He donated $4 million worth of his stock to the DAF, which created a charitable receipt of $4 million to offset the entire $2 million tax liability.

Donating those securities to charity saved a further $1 million of capital gains taxes he would have incurred if had he sold the securities personally His DAF is legally required to annually distribute a minimum of 3.5 percent of its value to any number of registered Canadian charities. The professionally managed DAF earned a return of 10 percent on $4 million last year, or $400,000. Any interest earned by his DAF is non-taxable. We used half of that interest income, $200,000, to fund the premiums on a new $10 million Joint and Last To Die Life Insurance policy, owned by his DAF. The $2 million tax liability was eliminated and became a charitable donation. Additional capital gains taxes payable of $1 million on the sale of the donated shares was turned into charity. A total charitable gift of $14 million was created, and he will be remembered for creating a generous charitable legacy instead of giving a large sum to the tax department.

I am very proud of Canada's life insurance industry, and how it responded to COVID 19. They quickly made it easier than ever to buy Life Insurance just by using your phone. You can now get up to $5 million worth of Life Insurance (any kind – term, permanent, whole life, etc.) with a telephone call. No in-person meetings, no blood work, no urine samples. Canada's largest life insurance company recently announced an increase to $270 million of expanded underwriting capacity. Clients can now get up to $270 million of individual coverage. That's DOUBLE what is was. This great news makes it easier to place large cases AND provide top-up coverage on existing policies, including policies issued from other insurance companies.

With so much economic growth over the past 20 years, especially in the real estate and private equity markets, it's especially important for clients to review their tax and estate planning and learn how life insurance can be used to preserve family wealth. There's a common misconception that as wealth increases, the need for life insurance decreases. And the wealthy often believe they can self-insure. Which they likely can, but they may lack liquidity. While there may be more than sufficient funds for lifestyle needs, the surprising fact is that the benefits they can derive from insurance is greater than ever. And it's worth exploring. Also, Manulife announced that they now offer up to $5 million worth of life insurance coverage for healthy people up to age 50, without providing any fluid evidence, all done with a 15-minute phone call.

Our advisors across Canada are available to help you too. Please don't hesitate to contact us for a no-obligation consultation. We look forward to helping you achieve the peace of mind that comes from knowing your planning is in order and your family is protected from the uncertainties that lie ahead. Stay safe. Mark. ❑

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP), Master Financial Advisor-Philanthropy (MFA-P) and CEO of WEALTHinsurance.com

He guides successful business owners, professionals, and affluent families through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy.

Mark collaborates with your professional advisory team to achieve your desired outcomes. His simple approach makes sure what is important to you gets done. He will suggest appropriate strategies to get your financial affairs meticulously organized, help you take action, and simplify the complicated so you and your family can rest easy.

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-Estate Planning Checklist

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-Business Owners Planning Guide

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