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ESTATEPLANNING

Charitable Gift Annuities

A Gift That Gives Back

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I was very fortunate to participate in one of Canada's most thought-provoking and stimulating annual events.

In June, I was honoured when asked to give a "Ted Talk" at Moses Znaimer's 20th annual three-day ideacity conference, often called Canada's "Premier meeting of the minds."

Most of the talks were macro in nature - from personalized medicine to artificial intelligence. But, as Moses observed in his introduction, I was there specifically to discuss a micro issue.

My talk "The New Philanthropy", in the Disruptors category, explained the democratization of philanthropy, and how ordinary people can use tax dollars for charity to create lasting legacies and inspire future generations.

Watch it here: *http://bit.ly/MarkHalpern*

It was a rare privilege to engage so many thought leaders, business owners and successful people in a philanthropic conversation, encouraging them to think about how they want to be remembered and how they can leave a meaningful legacy through strategic philanthropic planning.

Investing or Planning?

After 28 years of estate planning, I can report that more people than ever are personally involved with investing their earnings - often running complicated investment portfolios from their smartphone - but very few have thought about planning for the future.

One widely overlooked strategy deserves special attention from generous baby boomers and other individuals who want to reduce their taxes -- make a significant gift to charity and enhance income during their lifetime: a charitable gift annuity.

A charitable gift annuity is a good investment for people 65 and over, who seek a secure income during their lifetime and want to support their favourite charity now, when they die, or (if they are married) upon the death of the second spouse.

Registered charities can offer a charitable gift annuity in which they can use a portion of a donation of say, $100,000, to buy a life annuity from a top-rated insurance company. In any case, the annuity will provide lifetime payments to either you or your spouse.

It is important to know that when you receive money from an annuity, a portion of it is a return of your principal and the balance is interest, which is taxable.

Example 1 – *Married donors need the annuity payment*

Of the $100,000 you provide to the charity, about $52,000 is used to buy the annuity from a tier-one life insurance company. The life annuity provides a rate of about 5 per cent return, much higher than the banks are currently paying on a 10-year GIC. That translates to $2,600 a year until the second spouse dies. The remaining $48,000 of the original $100,000 is a charitable donation, and the donor receives a charitable receipt for that entire amount. That results in approximately

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$24,000 of tax savings, assuming a 50 per cent tax bracket.

The entire amount of the $48,000 charitable receipt doesn't have to be used in one year. In fact, it can be used over a five-year period, depending on the donation amount. (The gift part of the charitable gift annuity must be a minimum 20 per cent of the total donation.)

Example 2 – *Married donors don't need the annuity payment*

☛ Then there's the case of a couple that doesn't need the $2,600 a year. Instead, they use it to buy a joint-last-to-die insurance policy for another $200,000. Now, in addition to the original $48,000, the charity (named as the beneficiary in the life insurance policy), will receive the $200,000 on the death of the second spouse. In life, an individual can claim an amount for total donations of up to 75 per cent of net income. In death, donors can claim total donations made up to 100 per cent of net income in the year of death and the preceding year.

Regardless of which method you choose, you will receive a guaranteed income each year (or monthly if you choose) from the annuity. And if you gift an insurance policy to the charity, you will get an immediate tax receipt for any premiums paid.

Some donors use multiples of $100,000 to help their favourite charities, create guaranteed income streams for lifestyle needs, and save lots of tax today.

Key considerations when contemplating a charitable gift annuity:

☛ Your age and the contribution you make affect the size of your income payments. Usually, the older you are, the larger your payments.

☛ You want to increase your current after-tax income that's available for spending or enjoy the security of a fixed- guaranteed-income.

☛ You don't need the money chosen for the charitable gift annuity to provide for a surviving spouse or dependents.

☛ You want the worry-free management of such an investment.

☛ If the annuity income is more than you need, you can donate some of it back to the charity and receive a tax receipt.

☛ A charitable gift annuity is an irrevocable (permanent) gift

☛ A life annuity can include a guarantee period as well. We usually recommend 10 years.

With an annuity, there are no ongoing fees for investment management services or administration.

And the most important characteristic of a charitable gift annuity? The funds you provide help to secure your favourite charity's ability to continue with its goal of providing help to those who need it.

Charitable organizations like the Canadian Red Cross and Diabetes Canada, and many universities, offer these charitable gift donations.

Many people are under the false assumption that they must be rich, like Warren Buffett or Bill Gates, to make a financial difference to a worthy cause or make "The Gifting Pledge" to leave all their money to charity. Major donors have indeed supported many worthy causes, and you too can make a contribution that matters.

In fact, the federal government has introduced 25 different pieces of tax legislation since 1995 to make giving easier for people.

CPP Philanthropy™

A large charitable gift using funds supplied by the government.

A married couple, both 65, receive CPP benefits totalling about $26,000 a year. That money gets taxed, invested and re-taxed again. If they live in Ontario, they pay tax at the highest marginal tax rate of 53.53 percent.

If they don't need those funds to pay their bills, using just the CPP benefit of "never spend money" to pay the premiums, they can obtain a joint-and-last-to-die life insurance policy in the amount of $1.4 million. Their favourite charity as owner and beneficiary will receive the insurance payout on the death of the second spouse. Alternatively, they could make the charity a beneficiary at death and create a donation receipt of $1.4 million, saving their estate about $700,000.

CPP Philanthropy™, my Oct 2017 TaxLetter® article, presents additional ways to use those CPP benefits to fund your charitable aspirations and save a lot on taxes.

Personal strategy

There's no doubt we live in a great country and we can agree upon the importance of paying taxes, but there's no need to pay any more than what's legally required. Proper planning now will ensure that you meet the legal requirements and maximize the value of your estate. Your personal strategy can facilitate wealth transfer to your family and leave your mark by supporting your favourite charity now or bequeathing a substantial amount as a future gift.

People support charities in many ways beyond the usual method of donating using cash, cheque or a credit card. You can also name a charity as a beneficiary of your will or registered funds like your RRSP, RRIF or TFSA.

Married couples should know that all the money in their RRSP or RRIF flows directly and tax-deferred to a spouse (if the spouse is named the beneficiary of the RRSP / RRIF) after the death of a partner. It's not only to a spouse – it could be to a financially dependent child / grandchild or infirm child / grandchild.

After that, if you pay the highest tax rate in Ontario for example, the estate of the second spouse must pay hefty taxes to the government – as much as 54 per cent on registered funds, 27 per cent on capital gains (half the top rate) and 47 per cent on any funds withdrawn from a holding company.

In the case of those who are single, widowed or divorced, there is no tax-free transfer at death. When they die, the government scoops taxes at the same high marginal rates as above.

When made aware of their tax liabilities, most people want to protect their assets from too much taxation. As well, in our experience, every client prefers to leave money to family and charity instead of the federal or provincial government.

Other ways to be philanthropic

As a grandparent, you can facilitate charitable giving through an endowment. This too is an irrevocable gift, using a private foundation or a donor-advised fund (DAF) within a public foundation, and can be done with as little as $10,000. This doesn't have to be a one-time gift. Instead it can be set up to ensure a sustainable legacy in which your family can remain involved.

Once established, a DAF needs a board of directors to distribute the money. Forward-thinking grandparents often involve their grandchildren in the process, who assume active roles as members of the board, deciding where the funds go.

Grandparents can also fix a set sum of money to be distributed to a charity of the grandchild's choosing. Funds can be distributed to worthwhile organizations through a tax-efficient investment vehicle.

If you do decide to use life insurance to provide for a charity, it's important to remember that the proceeds of the policy are usually many times greater than the sum of premiums paid.

For example, an estate with an ultimate tax bill of $500,000 can purchase a joint-last-to-die insurance policy for $1 million on the grandparents, then pay that tax bill and still have another $500,000 to leave to family and/or charity.

Some people wonder how to decide how much is enough to give. For us, 'enough' is less about individual amounts and more about frequency, it's leaving a legacy of giving to your children and grandchildren by setting an example.

My late mother, anything but rich, supported many different charities with small gifts and abundant volunteerism. Her stack of charitable receipts at tax time was formidable. She instilled in our family the importance of giving both time and money. You can do the same in your family.

Philanthropy can reward you financially and spiritually. We are available to help you make the important decisions that are both generous and tax-advantaged, creating an enduring legacy in your family for generations to come.

Please be in touch for a personal, no-obligation consultation. Our advisors are available across Canada. ❑

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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 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 Mark@WEALTHinsurance.com.
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