The TaxLetter®

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*ESTATE*PLANNING

Maximize & Preserve

Do Good. Do Well.

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Which of these two options would you prefer? Create a charitable legacy, help others and inspire like-minded individuals to follow in your footsteps -- or give up to half of your RRSP/RRIF savings (and perhaps more) to the government in taxes?

Many people don't realize it, but funds in an RRSP and RRIF are taxed at their marginal tax rate (as high as 54 per cent in Ontario) after the death of the second spouse; assets in personal holding companies are taxed in excess of 50 percent, and 27 per cent of capital gains from non-registered investments, business equity and real estate investments (not including your principal residence) will go in taxes to Canada Revenue Agency.

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We've met many generous people in almost 30 years of professional practice, and to a person they all agree that funding an enduring bequest to make positive changes in this world beats sending money to the tax department.

If you are inclined to be generous, it's important that you first do 3 things: some planning to make sure you and your family are covered off with your income and retirement needs; determine your tax liabilities now and in the future; and look at implementing any significant philanthropic and wealth preservation strategies.

Long-time readers of The TaxLetter® know that leaving a legacy through generous charitable donations can improve your financial situation. Read my previous articles "Be Philanthropic, Improve Your Finances, "Jan. 2019, and "Maximize Giving, Minimize Taxes," March 2017.

Canadians Are Generous

Canadians are charitable people. Recent statistics indicate that 84 per cent of those aged 15 and over (about 23.8 million people) donate to charities and non-profit organizations. Most do it by cheque, cash or credit card.

In fact, a much better way to donate is using appreciated securities e.g. stocks, mutual funds, ETFS, etc. Normally, the growth which is called capital gains would be taxed at 27 per cent. But by donating these assets to charity, you pay no capital gains tax and receive a charitable receipt for the full market value that will usually save you $1 of tax for every $2 you donate. Consider this idea at the end of the year when you know that you will have a tax bill that will be due in April.

But still, often the most tax-effective way to be generous in Canada is by using life insurance.

Life insurance will produce a much bigger gift that can be more beneficial to you and the charity. Here's an example. Let's say that you give $10,000 a year to your favourite charity and receive a charitable donation receipt for your income tax. Another option, instead of writing that $10,000 cheque to the charity every year, is to write a $10,000 cheque to pay the premiums on a life insurance policy, which you transfer to the charity. The payout on that life insurance policy will be many multiples more than the aggregate of that $10,000 gift a year and you still receive a charitable receipt for your premiums. Alternatively, you can pay the $10,000 premium (get no charitable receipt) and designate the charity as the beneficiary of the policy. The charity will receive a generous gift on your death and your estate will receive a big charitable receipt which can be used to offset taxes owing in your final estate tax return.

GiftMAXIMIZER™ Strategy

Employing our GiftMAXIMIZER™ strategy, a donor can make annual donations using permanent cash-value life insurance – with the added twist that the charity can begin to receive a cash flow from the policy while the donor is alive! Money can be paid to the charity as early as in the first year the donation is made.

When you buy permanent cash-value life insurance the dividends are typically reinvested into the policy to buy additional insurance coverage. This allows the dividend to be non-taxable. With the GiftMAXIMIZER™ approach, if the charity owns the policy, your own private foundation or your Donor Advised Fund (DAF), the dividends can be paid and received annually by the charity and there will be no tax consequences. Note that the longer the charity waits to receive the annual cash dividends on the policy, the greater the amount it will receive every year.

A recent case

Daniela DeGasperis is a Toronto-based philanthropist and Vice Chair of BOOST Child & Youth Advocacy Centre, an amazing organization dedicated to the prevention of child abuse and violence (boostforkids.org). She wanted to make a transformational gift that would help the charity, provide substantial ongoing cash flow and inspire others to follow her lead. She inspired me so much that WEALTHinsurance.com became a corporate donor!

We structured Daniela's $2.7 million total gift by using a permanent cash-value life insurance from a tier-one Canadian life insurance company with a death benefit of $1.5 million. She makes annual premium payments of $66,000 for 10 years only, which is considered a charitable donation. Her net cost after the donation deduction is $33,000 annually or $330,000 over the 10 years.

BOOST will get tax-free cash dividends of $1.2 million during her lifetime, an average of $25,000 every year.

At death, BOOST will receive an additional legacy gift from the life insurance death benefit of $1.5 million, for a total gift of $2.7 million.

Daniela was recognized for her generosity during her lifetime, and the charity will enjoy significant ongoing cash flow from cash dividends during her lifetime, and ultimately the final $1.5 million gift. Her generosity set an important example for her family, friends, community and other philanthropists.

PolicyPRESERVER™ Strategy

In Canada, approximately $7 billion of Term Life Insurance policies lapse each year.

Policy lapses occur frequently among individuals age 65+ who no longer need their policies or can no longer afford to pay sharply increased premiums to renew their coverage.

Most of those policy owners don't know that their unwanted policies may have a genuine financial value that can be realized and put to good use for charitable purposes and to save taxes.

In the case of policies owned by individuals who could no longer qualify to buy life insurance due to current ill health (where health challenges developed after their policies were issued), the financial value of their unwanted policies is amplified.

The current value of their policies can be determined by a professional actuary who can evaluate policy details and consider related circumstances specific to the insured individual.

Once the current value is established, the policy owner can donate the policy to a registered Canadian charity and receive a charitable donation receipt for their generosity. Depending on the underlying circumstances, the resulting tax receipt typically ranges from 10 – 70 per cent of the policy face value.

With rare exception, every charity wants/needs to raise funds from donors and supporters. Donated life insurance policies of all kinds, including Whole Life, Universal, and T100 policies are warmly welcomed, and planned legacy gifts are acknowledged and recognized as significant donors while they are alive. However, residents of B.C. should consult with their advisors before structuring gifts of life insurance policies to a charity.

Recent Case

One of our clients, a generous graduate of Bishop's University in Lennoxville, Quebec, wanted to support his alma mater but didn't have enough cash to fund a substantial donation. In his early 60s, he was financially comfortable with pensions and fixed income investments but wanted to make a meaningful donation while he was alive.

He owned an older term-life insurance policy with a face amount of $300,000 that he no longer needed. We arranged for an independent actuary to review his policy, and arrived at a current fair-market valuation (FMV) of $175,000.

We helped him convert the policy to permanent insurance (with no medical underwriting or additional requirements) and he gifted it to the Bishop's University Foundation. In exchange, he received a tax receipt for $175,000, giving him tax savings of $87,500 over the next five years. The Foundation will fund the ongoing premiums on the donated policy and receive $300,000 upon the donor's death.

The PolicyPRESERVER™ strategy is available for older term or permanent life policies.

We collaborate with many advisors across Canada and do all the 'heavy lifting' to facilitate the gifting of their clients' life insurance policies to registered charities.

Our work includes a viability review of a donor's policy/policies, liaison and engagement with licensed actuaries to obtain Fair Market Value of the policy, working with charitable organizations to arrange terms of the policy donation (policy valuation, amount of charitable donation receipt, determining who assumes ongoing premium obligations where applicable - usually paid by the donor, or charity, or another donor connected to the charity).

CPP Philanthropy™

You can create a large charitable gift using funds supplied by the government. A Toronto-based couple, both 65, were receiving total CPP benefits of about $26,000 annually. That money gets taxed, invested and re-taxed again. They didn't need those funds to pay their bills, and already were paying tax at the highest marginal tax rate of 53.53 percent.

Using only the CPP benefit "never spend money" to pay the premiums, we structured a joint-and-last-to-die life insurance policy in the amount of $1.4 million. Their favourite charity is the beneficiary and will receive the insurance payout on the death of the second spouse. Alternatively, they could have named the charity as beneficiary, creating a donation receipt of $1.4 million, and saving their estate about $700,000.

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

Convert taxes into charitable dollars

Donating to the causes you care about benefits the charities and can be deeply rewarding for you too. Supporting the causes they believe in has a positive affect on donors' lives.

To many people, having the power to improve the lives of others is a privilege, and one that comes with its own sense of obligation.

Sharing the experience with your children shows them that they too can make positive changes. It is this kind of inspiration that will stay with them for years to come and one that they can share with their own children.

Family, friends and colleagues may also be motivated to be generous and thoughtful and eventually filter these qualities down to their children as well.

Using a variety of philanthropic strategies, we convert taxes into charitable dollars, creating transformational gifts. As a company, we hope to raise $100 million for charity each and every year.

Our advisors across the country would love to help you do good while preserving your hard-earned money

If you have any questions, please don't hesitate to contact us. ❑

Please visit our new website WEALTHinsurance.com

Watch "The New Philanthropy", my recent "Ted Talk" at Moses Znaimer's ideacity conference http://bit.ly/MarkHalpern

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, 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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