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ESTATEPLANNING

You Live Once But Die Twice

Don't be forgotten

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James Bond fans will remember that he faked his own death in the 1967 film, You Only Live Twice. Of course, we all know (until further notice) that everyone lives but once. However, few people realize that we actually die twice. The first death happens when your body shuts down, hopefully after a long, healthy, happy and fulfilling life. The second death occurs when your name is mentioned for the very last time, as it's only when people stop talking about you that you are truly gone.

Every living thing dies at some point. While we can't alter the inevitable, we can extend and delay that certainty for many years. We can do so by creating a lasting charitable legacy that will endure for many years to come.

I spend a lot of time with generous and fortunate people who, unless they radically change how they spend or invest their money, will have more money when they die than they have today.

The financial challenge on their death (the first one) is the looming intervention of the Canada Revenue Agency (CRA), the government's collection agency, which is only more than happy to take a big chunk of your hard-earned money: 54 per cent of funds accumulated in Registered Retirement Savings Plans (RRSPs) and Registered Income Funds (RIFs) after the death of the second spouse; 45 per cent of assets in personal holding companies, and 26 per cent of capital gains from non-registered investments and real estate investments that are not your principal residence.

The solution begins by defining your tax liabilities, and determining how much of your money can be used to implement strategies to preserve your wealth in a manner that will enable you to pass it on to the people and causes you truly care about. In our experience, every client prefers to leave money to family and charity versus funding the CRA.

You can do the same by using "your never spend" money - that's the money you will never really need to pay your bills, that's really earmarked for the next generation or causes you are passionate about.

Ensure That Your Name Lives On

With proper planning, you can use several available strategies to ensure that your name lives on for generations. Thus, the funds that would have otherwise gone to the government will instead go to your family and favourite causes.

There are two common ways for you to leave a legacy: one is through a charitable donation, where your name can be attached to a notable institution such as a hospital or educational facility, so people you have never met are touched in perpetuity by your generosity and selflessness. The second way, through a family legacy, is much more personal. Your name will be on the lips of your descendants for generations to come, particularly when they receive a generous cheque from your trustees or financial institu-

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tions every year, both of which you arranged well in advance.

Here's just one of example of how the second one can work. Joe, a grandfather, purchased a participating whole life insurance policy on each of his grandchildren many years ago at the best time to buy life insurance -- when the kids were young and healthy.

Joe committed to paying the premiums for 10 years only. The policies normally have different dividend-paying options used to increase insurance coverage, so they stay tax exempt, like all life insurance products.

There are several different dividend-paying strategies from which to choose. In this case, a policy worth, say $100,000, can lead to a dividend of 5-6 per cent annually, producing a dividend cheque of $5,000 for his grandchildren that will continue throughout their lifetimes.

The dividends generated can also be used to buy additional insurance coverage or reduce future premiums. Using this strategy, you could elect to apply annual dividends to future premiums (offsetting the cost of the policy), or deposit the dividends paid into a savings account and earn interest on those funds.

Every year, the insurance company will send a cheque to your grandchildren (and likely be subject to dividend taxes at their tax rates) and continue to do so in perpetuity as a gift to the policy owner.

It's like receiving a birthday card in the mail from a late relative. If you received a cheque in the mail every Jan 1st from your great-grandfather, do you think you would remember his name? You can do so with this strategy.

When you do the math over a long period of time, this dividend may be equal to anywhere from a 9 to 10 per cent pre-tax return. The grandfather is not so much concerned about the return. Instead, he is convinced that this is the best investment he has ever made for his grandchildren, one that allows them to stay connected to him for decades after he is gone.

A Second Tax-Efficient Strategy

Another strategy, known as "melt and cascade" (the subject of my Dec. 2015 TaxLetter® article) allows taxpayers to "thaw out" the registered and unregistered investments they are not using in their retirement, and stream those funds to children or other beneficiaries in the most tax-efficient method possible.

For example: Jack is 65, a divorced man with a thriving business and two grown children. He has almost $2 million in his RRSP and wants to leave half of it to his children and the other half to charity. He starts withdrawing from his RRSP to provide the after-tax funding needed to buy a $2-million life insurance policy on his life.

When Jack dies, his children will receive $1million of death proceeds, tax-free and probate-free. The remaining $1 million of insurance proceeds will go to the designated charity. On top of that, it will generate a charitable receipt of $1 million, saving the estate about $500,000 in taxes.

In the end, his children get a $1.5 million benefit - that's $500,000 more than the $1 million. His favourite charity recognizes him while he is alive as a $1 million donor, and he will be remembered for leaving a large charitable gift, instead of a large sum to the tax department, all through this creative planning.

Use your life insurance to leave a legacy, and cash.

1. Buy the policy and name the charity as the owner and beneficiary. Once you are sure that the charity has a charitable registration number, the premiums you pay for the policy qualify as a charitable tax deduction on your annual income tax return.

2. Transfer ownership of an existing policy to a charity. In this case, you can get an actuary to put a present value on the old policy, thus generating a charity receipt for the actuarial value, which could be quite large. This can be used to offset current taxes owing. Going forward, you can claim the charitable donation credit for any premiums you pay after the transfer takes place.

3. Buy a new policy and name either the charity or your estate as the beneficiary and include the charity as part of your will. This is a good strategy for anyone who wants the flexibility to change the charitable beneficiary in the future.

Unlike the first two methods, you will not be able to receive a charitable donation credit for premiums. However, the charity will issue a tax receipt for the death benefit proceeds it receives from your final tax return, potentially saving your estate a lot of taxes.

Consider an Endowment

Rather than a one-time gift, you can also give to charity through an endowment, a sustainable legacy achieved by providing an irrevocable gift to either a private foundation or a donor-advised fund (DAF) within a public foundation.

There are specific tax rules for these endowments for how much must be granted every year. Private endowments and DAFs can receive full tax benefits for contributing, without having to disburse the entire contribution amount immediately.

DAFs, which are typically created around the end of the year to take advantage of annual tax deadlines, take only about a day to set up. They are easier to operate than a private foundation, which can take about three months to establish, and is set up strictly for charitable purposes. Private foundations must maintain their own record-keeping and reporting, and pay for administrative and legal expenses as well as set-up costs.

The CPP Philanthropy™ strategy (the subject of my Oct. 2017 TaxLetter® article) is a very simple way to use government-supplied pension benefits to reduce your taxes significantly, while creating charitable gifts of over $1 million for your family and charities.

We all know people are living longer than ever. Life expectancy continues to expand, and "old" has taken on new meaning, as people aged 100 years plus are a fast-growing population segment. Many TaxLetter® readers can't name their great-grandparents. But readers do have a unique opportunity to create a charitable legacy for the benefit of their families and charities. It's a legacy that will endure long after they are gone, ensuring their great-grandchildren will definitely remember their name.

Don't do it alone. Get advice from experienced professionals to ensure that your hard-earned money ends up where you want it to go, not in Ottawa's coffers. Be remembered for something other than paying a lot of taxes.

Call us for a consultation. We'd love to help. ❑

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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 1-800-566-2001 or Mark@WEALTHinsurance.com.
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