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TAXSTRATEGY

Maximize Giving Minimize Taxes

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We've always been told to maximize RRSP savings to better fund our retirements. This article explains how your money can obtain a bigger and better benefit that is far more advantageous from a tax perspective, and more generous to your family and favourite charities. Several examples are given.

A 65-year-old couple

A recent case involved self-employed husband-and-wife professionals who had just started to receive their Canada Pension Plan (CPP) benefits totalling $2,200 a month. They were depositing those funds directly into their RRSPs.

(Why do they call it a 'benefit' when it's really a return of the money you pay in?)

Their monthly RRSP contributions reduced their taxable income only slightly but did little to grow their retirement nest egg. They knew that at some point all the money salted away in their RRSPs/RRIFs would have to be withdrawn – only to be heavily taxed when that occurs. Like anyone else who lives in Ontario earning more than $220,000 annually, they will lose 53.53 per cent of their retirement savings to federal and provincial taxes.

As it happens, they were well-off financially and really don't need any of the $2,200 a month to cover everyday living expenses. Charitable giving was a key family passion, so we suggested several ways to better use the monthly CPP stipend to enhance the family's wealth and make a significant planned charitable gift.

Instead of depositing the money into their RRSPs every month, we suggested ways to reallocate and convert the taxable assets of the CPP benefits into "double duty dollars".

3 alternative strategies

Option #1: Use the $2,200 monthly to pay the premiums on a new $1.2-million joint and last-to-die life insurance policy. Their children and grandchildren will receive the entire $1.2-million tax-free after both parents die.

Option #2: Use the same funds, $2,200 a month, to purchase a $1.2-million life insurance policy but instead of designating the family as beneficiaries, make the beneficiary a favourite charity or a charitable foundation that we would help set up for them. On the second death, the entire $1.2 million will be considered a charitable donation – which in turn will save their estate about $600,000 in final taxes.

Option #3: Use the $2,200 monthly CPP benefits to buy the $1.2-million life insurance policy after first setting up a family charitable foundation with a charity (or charities) being the owner and beneficiary of the policy. The $2,200 monthly premium is treated as a charitable donation, and by ensuring that the charity has a charitable registration number, all the premiums paid qualify for a charitable donation receipt, which reduces their taxable income.

In every instance above, the parents are reducing an ultimate

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tax bill while creating a worthwhile legacy for their family and favourite charities. Whether the life insurance premiums are paid (donated) on a monthly (or annual) basis, in our experience most charities will happily recognize and honour these donors TODAY as million-dollar benefactors - while they are still alive. Some clients prefer to be recognized for their philanthropy after they die, and others are delighted to make a substantial charitable gift with no recognition at all.

A 45-year-old business owner

Another generous client asked us for the best and most tax-effective strategies to donate a total of $1 million to a handful of his favourite charities. We presented these ideas:

Option #1: Give the after-tax money directly to charity – which in reality is like giving $2 million before tax to pay out $1 million.

Option #2: A more tax-efficient method would be to buy a $1-million life insurance policy. In his case, the annual premium cost of about $25,000 would be payable for each of the next 10 years. The policy would be owned by a charitable foundation we helped set up at no cost.

The annual premiums would be considered a charitable donation and reduce his current taxes, and he would be recognized for his generosity by each charity now, while he is alive, if he so wishes.

Option #3: With the client's permission, we spoke to his investment advisor and discovered he had some stocks in his unregistered portfolio with substantial, or "pregnant," capital gains. One stock purchased for $5,000 was now worth $25,000. If he decided to sell the stock, he would end up with a $20,000 gain and then pay $5,000 in tax, a 25 per cent capital gains tax. We suggested he donate that $25,000 of stock (with the big capital gain attached to it) to his charitable foundation. The Canada Revenue Agency allows taxpayers to donate stock with a capital gain to a registered Canadian charity and not have to pay any capital gains tax – a win for the charity. In turn, he receives a full tax receipt for the charitable donation of $25,000 – a win for our client. The client saved $5,000 of capital gains tax AND now uses the proceeds to fund his legacy through the charitable life insurance policy.

A young entrepreneur in his 30s sought our opinion on the best ways to make a substantial charitable donation in a manner that would also produce networking opportunities with fellow young professionals.

We suggested that he buy a $1-million life insurance policy and fund the policy through a charity, a local hospital, which becomes the owner and beneficiary of the policy. The annual premiums of $8,000 are considered a charitable donation and he is recognized as "a million-dollar donor," even though the policy won't be fully paid up for 20 years. In addition, this particular institution encourages major gifts with two special programs that facilitate and acknowledge million-dollar donations. Membership in the "Chairman's Club" and "Young President's Circle" enabled the budding entrepreneur to meet like-minded philanthropists with whom to network and develop business relationships.

Donate an Existing Policy to Charity

Our 81-year-old client was paying $4,000 in premiums every year on an old $100,000 life insurance policy that he no longer needed. We obtained a policy valuation of $58,000 from an actuary that enabled him to donate it to a charity and receive a charitable receipt for that entire amount. Looking ahead, all the premiums that he pays in the future will be treated as a charitable donation. For donors who would prefer to no longer pay the premiums on donated policies, many charities are happy to find new donors who will pay those premiums going forward.

Proper Planning

Without proper planning, the money that should be left to your family and/or favourite charity will end up in the hands of the tax department. Married couples should be aware that all the money in an RRSP or RRIF flows directly and tax-free to a spouse – and only a spouse – after the death of the partner. After that, the estate of the second spouse must pay hefty taxes to the government – approximately 54 per cent on registered funds, 25 per cent of capital gains, and 45 per cent on any funds withdrawn from a holding company. With careful planning, your charitable donation will help a worthy cause you care about and reduce your estate taxes – all at the same time.

The truth is that giving to charity is not only a good thing on its face, but a tax-efficient method to reallocate, protect and grow your assets.

It is always nice to help charitably-inclined people who didn't realize how easy it is to support beloved causes while improving their personal tax situation, and while instilling a sense of social responsibility for your family and creating a legacy of hope and caring.

WEALTHinsurance.com® is the Lead Sponsor for the 2017 LEAVE A LEGACY™ Information Series presented at the Toronto Reference Library by The Canadian Association of Gift Planners GTA Chapter. LEAVE A LEGACY™ is a national public awareness campaign designed to promote charitable giving in the estate planning process.

You are invited to attend the highly popular information series consisting of monthly presentations running from May to September. It's a great partnership that will benefit many people and charitable organizations. We are extremely pleased to sponsor this important series. I will be speaking on August 10th. Please bring a friend and introduce yourself. I look forward to meeting you.

We are also proud sponsors of Lip Sync Heroes, in support of the Canadian Cancer Society and Canadian Shaare Zedek Hospital Foundation. It is a one-of-a-kind gala event to be held on April 2nd where high-profile community leaders will compete in an epic lip sync battle to beat cancer.

Additional information on both initiatives is available at our website.

To obtain the greatest benefit from your own charitable activities contact us for a no-obligation consultation or to get a second opinion on your current planning. Our team of advisors helps Canadians from coast to coast. ❒

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