As seen in… FOUNDATION
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THE ACCIDENTAL PHILANTHROPIST
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Creative Charitable Gifting Strategies

BY MARK HALPERN, CFP, TEP, MFA-P, WEALTHINSURANCE.COM

There are many wonderful ways for your supporters to be remembered for leaving more to charity and family instead of a large sum to the tax department.

This column explains some effective strategies (that don't get enough attention) to facilitate more significant gifts from your donors in the most cost and tax-efficient manner possible.

Charitable gift annuity

This under-used strategy is virtually off the radar in Canada. It is used in the U.S. to raise hundreds of millions in donation dollars, and I scratch my head wondering why our charities are not promoting this on their planned legacy giving menu.

More people than ever are actively involved with their own investing. Technology has democratized the process. Today people run complicated investment portfolios from a smartphone.

Getting their attention on strategic philanthropy becomes much easier when a charitable gift annuity is properly explained — something that will appeal to donors in our low interest rate environment. Generous baby boomers can enhance income during their lifetime, reduce their taxes and make a significant charitable gift by incorporating this into their investment and charitable planned giving.

It's a great investment for people 65 and over, who seek secure guaranteed income during their lifetime and want to support their favourite charity now, and also leave a legacy gift upon death.

Registered charities can offer a charitable gift annuity in which a portion of the donation is used to buy a life annuity for the donor from a tier-one insurance company. The annuity will provide lifetime payments to the donor(s).

A large portion of money received from an annuity is a return of principal and the balance is interest, which does get taxed but at a reduced rate.

Some large charitable organizations have gift annuities available, but very few actively market them.

Examples of a $100,000 gift

1 *Married Couple Who Need the Annuity Payment*

Charity uses about $62,000 of the donation to buy the annuity. It provides 5 percent return, much higher compared to the 2 percent banks currently pay on a 10-year GIC. That works out to $3,600 a year until the second spouse dies. The remaining $38,000 of the original $100,000 is a charitable donation and the donors get a charitable receipt for that entire amount. That results in approximately $19,000 of tax savings, assuming the highest tax bracket in Ontario (53.5 percent).

The entire amount of the $38,000 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, to offset current or future taxes owing.

2 *Married Couple Who Don't Need Annuity Payment*

As above, the donor saves $19,000 in taxes but this couple doesn't need the annual $3,600 to pay bills. They use it to buy a $200,000 joint-last-to-die life insurance policy and name the charity as beneficiary. On the death of the second spouse, the charity receives $200,000 (in addition to the original $48,000) and the estate will get a $200,000 tax receipt to save $100,000 in estate taxes.

Note that during their lifetime, an individual can only claim an amount for total donations of up to 75 percent of net income per year. At death though, donors can claim total donations made up to 100 percent of net income in the year of death and the preceding year. That means gifts to charity on death will mitigate donor estate taxes and convert taxes into charity.

This would allow donors to use life tax-exempt life insurance at a cost of pennies for dollars, to be remembered for leaving a large gift to a charity they are passionate about instead of a large cheque to the tax department. Conversely, gifting an insurance policy to a charity while the donor is alive, generates an immediate tax receipt for any premiums paid (versus at death) and allows the donor to be recognized while they are alive for their generous legacy gift.

Regardless of the charitable annuity method chosen, donor(s) receive guaranteed income (annually or monthly) from the annuity.

In many cases, donors use multiples of $100,000 to help their favourite charities and create guaranteed income streams for lifestyle needs, while saving lots of tax today and in the future.

Key considerations:

- Donor's age and contribution amount affect the size of annuity payments. Older and health challenged donors typically receive larger payments.
- Allows donors to increase current after-tax income available for spending and enjoy the security of a fixed guaranteed income.
- Donor doesn't need the money invested in the charitable gift annuity to provide for a surviving spouse or dependents.
- Charity wants worry-free management of such an investment.
- If the annuity income exceeds donors' needs, they 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.
- There are no ongoing fees for investment management services or administration.

Some large charitable organizations do have charitable gift annuities available, but very few are actively marketing them.

Many would-be donors are under the false assumption that they must be rich, like Warren Buffett or Bill Gates, to become a philanthropist. The attributes of a Charitable Gift Annuity make it much easier and can be very compelling to your donors.

CPP Philanthropy™

Donors can create large charitable gifts 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. Let's assume they live in Ontario and pay tax at the highest marginal tax rate of 53.53 percent.

If they don't need those funds to pay their bills, they should consider using just the CPP benefit to pay the premiums on a joint-and-last-to-die life insurance policy in the amount of $1.4 million. By making their favourite charity the policy owner and beneficiary, the charity will receive the insurance payout on the death of the second spouse. During their lifetime, the donor receives the charitable receipt for the premiums which offsets the tax owing on the CPP entirely.

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.

Another option is to make their family the beneficiary of the $1.4 million life insurance policy and instead donate their RRSP/RRIF to charity versus paying 53.5 percent on the registered proceeds! A real win-win for their family and the charity.

Taxes on RSPs and RIFs converted to charitable gifts

Wealthy Canadians with substantial sums in RSPs and RIFs are usually unaware of the large tax bill due (53 percent in Ontario) on withdrawal or death of a husband and wife. Singles, widows and divorcees do not have the

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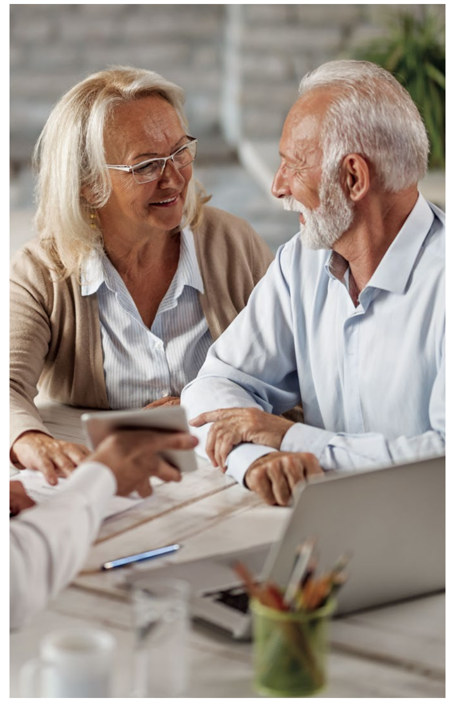

benefit of a tax-free spousal rollover.

These funds are seldom needed to pay bills and generally won't move the dial on donor's estate planning.

Recent case: $1 million of taxes became $4.5 million of charity

A business owner had $2 million of retirement savings in his RRSP and contacted us to explore the possibility of donating it to charity while he is alive.

At death, a $2 million RRSP or RRIF is worth only $960,000 to heirs.

Our donor wanted to donate all of his RRSP/RRIF to their own charitable fund (Donor Advised Fund).

Withdrawals (or disposition at death) on registered money are taxed at 53.5 percent. Donations to charities generate 50 percent tax savings. Therefore, the net out-of-pocket cost to donate the $2 million RRSP intact was 3.5 percent.

Normally, withdrawals of registered funds are subject to withholding tax of 30 percent. We arranged for CRA to waive withholding taxes at source. His bank transferred the entire $2 million to the Donor Advised Fund (DAF) we set up for him. His DAF now has $2 million intact which can be distributed to any registered charities in Canada.

We structured a Joint and Last to Die (JLTD) 10-pay Life Insurance with the policy owned and paid for by the DAF, premium $100K/year. The death benefit at their life expectancy at age 85 is $3.5 million.

The result is that the client converted $2 million of taxable RRSP funds (worth only $960,000 to his family) and instead created a charitable family legacy of $4.5 million. The cash surrender value (CSV) and dividends from the insurance policy can be used during the donor's lifetime to make additional tax-free gifts to charity. For example, the CSV @ year 10 = $807K and at age 85 = $2.8 million.

Many charities, foundations, and donors rely on us as a resource, advising them on legacy planned giving programs with best-in-class donation strategies that are cost-effective and tax advantaged.

Please be in touch to discuss how we may help you and your supporters become Accidental Philanthropists™.

Enjoy a great summer.

Stay safe and be well.

MARK HALPERN, CEO of WEALTHinsurance.com, is a Certified Financial Planner, Trust & Estate Practitioner, and Master Financial Advisor – Philanthropy. Widely known for his charitable work across Canada, he helps people transition from success to significance, often converting taxes to charity. Mark delivered a 'Ted Talk' in the Disruptors Category at Moses Znaimer's most recent ideacity conference. Watch "The New Philanthropy" at https://ideacity.ca/video/mark-halpern-the-new-philanthropy/

Learn more at www.WEALTHinsurance.com

Please visit WEALTHinsurance.com

Mark's inspiring corporate goal is the creation of $100 million in legacy planned gifts annually by helping affluent families, charities, foundations, and working with like-minded professionals helping people convert taxes to charity.

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