STRATEGIC PHILANTHROPY

BY MARK HALPERN

Generosity Rewarded

Four case studies transform tax into charity

Philanthropy is a game-changer for your professional practice, especially when clients learn they can convert taxes into charitable gifts. Here are four examples where clients became Accidental Philanthropists® by transforming tax into charity.

1. Offset RRSP tax liability

A 65-year-old divorced business owner had \$2 million in his Registered Retirement Savings Plan (RRSP). Like many successful people we meet, he didn't know more than half of those hard-earned savings will go to the tax department when he withdraws the money or dies. For those in the highest tax bracket in Ontario, RRSP and Registered Retirement Income Fund (RRIF) assets are taxed at 53.5% at death. So, with no tax-free spousal rollover available, this client discovered his RRSP would be worth just \$929,000 to his heirs.

He learned from us that instead of paying more than \$1 million in taxes, he could donate the \$2-million RRSP now, while alive, to a donor-advised fund (DAF), a charitable-giving vehicle where funds grow tax-free and can be distributed to any registered charity in Canada. A DAF can be set up same day, and enables donors to make a charitable contribution without specifying the charities that will ultimately benefit from their gift. The donor receives an immediate donation receipt and can recommend grants (gifts) from the fund over time. The net cost to the donor for this transaction is approximately 3.5% — versus losing more than half to tax.

We also structured a 10-pay life insurance policy, owned and paid for by the DAF. The death benefit earmarked for charity at the client's life expectancy of age 85 is \$3.5 million. Assuming the donor distributes 5% of the charitable assets each year during his lifetime, the DAF will create a charitable legacy of \$4.5 million. Canada Life recently launched the one-pay-only "My Par Gift," the first insurance policy in Canada designed exclusively for charitable giving, making it easier than ever to implement this type of strategy.

2. Offset CPP tax liability

A husband and wife, both 65, are each receiving \$1,100 monthly in Canada Pension Plan (CPP) benefits for a total of about \$26,000 a year. That money gets taxed, reinvested, and then taxed again. It also ends when the recipient dies. The couple didn't require the CPP funds to support their lifestyle, so we proposed ways to mitigate taxes now and when death occurs. The CPP Philanthropy™ strategy uses CPP benefits to fund a permanent life insurance policy, creating a substantial windfall for the family and the clients' favourite causes.

Here's a quick summary of four ways to implement CPP Philanthropy™:

- \$1.4-million policy **owned by a charity or DAF** with that entity as beneficiary, resulting in tax savings of CPP used for premiums and a large gift
- \$1.4-million policy **owned personally** with a charity or DAF as beneficiary, resulting in \$700,000 of estate tax savings
- \$1.4-million policy **owned personally** with the family as beneficiary and donating RRSP/RRIF through the will
- \$1.4-million policy **owned personally** with the grandchildren as beneficiaries, resulting in a perpetual "pension" for the couple's benefit or for charity

3. Donate private company shares

Most people know you can donate appreciated public securities to charity and pay no capital gains tax. If your clients own shares in a private company, this strategy allows them to donate those shares to a charity, mitigate taxes, create a substantial charitable legacy, and get tax-free money out of their company for the next generation.

Here's how it works. Our client donated private company shares to a charity in their will. At the same time, the company acquired a permanent life insurance policy on the client's life paid for by the company. At death, the private corporation will use some of the life insurance proceeds to buy back the shares from the charity.

This approach allows the client to make a significant gift to meaningful causes without reducing the family inheritance. It also allows the heirs to continue to control 100% of the corporation. The icing on the cake is that the corporate-owned insurance creates a capital dividend account (CDA) credit, which allows the heirs to withdraw any other available funds up to that CDA balance from the corporation tax free. Note that this strategy can be further enhanced using cash value leveraging, also known as an immediate financing arrangement (IFA).

4. Offset real estate tax liability

The patriarch of a third-generation farming family sold a real estate portfolio for \$120 million, creating a tax liability of \$20 million. We suggested a donation of \$40 million to a private foundation, turning the \$20 million of tax into \$20 million of charity. We then structured a \$40-million joint-last-to-die life insurance policy to restore the donated funds to the family. When both parents die, the family will receive the \$40-million death benefit to make them "whole." This strategy was further enhanced using an IFA. Results: \$20 million of tax became charity, a \$40-million foundation was set up, and the family went from success to significance. A win-win for everyone.

Advisors need to include strategic philanthropy using life insurance in clients' estate planning. We work with advisors across Canada, helping their clients achieve outstanding results. Please be in touch if we can help you.

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