Insured Philanthropy Case Study

Eliminate Taxes with Generosity

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The Problem

A Successful Business Owner Had A $2.0M Income Tax Liability.

Most of his assets were illiquid and he didn't want to use cash on hand to pay the taxes.

He had a stock portfolio worth $10M, with a very low cost-base, so he was 'pregnant' with significant capital gains and understandably reluctant to sell any shares as that would trigger an immediate and additional tax liability.

The Solution

Step 1
We helped him create a Donor Advised Fund (DAF) at a Community Foundation. He donated $4.0M of his stock to the DAF which created a charitable receipt of $4.0M to offset the entire $2.0M tax liability. Donating those securities to charity saved a further $1.0M of capital gains taxes he would have incurred if had he sold the securities personally.

Step 2
His DAF is legally required to annually distribute a minimum of 3.5% of its value to any number of registered Canadian charities. The professionally managed DAF earned a return of 10% on $4.0M last year, or $400K. All of the interest earned by his DAF is non-taxable. We used a portion of that interest income, $200K, to fund the premiums on a new $10M Joint and Last To Die Life Insurance policy, owned by his DAF.

The Results

His $2.0M million tax liability was entirely eliminated and became a charitable donation.

Additional capital gains taxes payable of $1.0M on the sale of the donated shares was turned into charity.

A total charitable gift of $14M was created.

He will be remembered for creating a generous charitable legacy instead of giving a large sum to the tax department.

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