VOTED THE WORLD'S BEST INVESTMENT ADVISORY

Investor's Digest of Canada

March 22, 2019 Vol. 51, No. 6

For a great ROI, be philanthropic

Mark Halpern

With the RRSP season just ended, and the April 30 tax filing deadline looming ahead, this is an emotionally (and literally, pardon the pun) taxing time of year for many people.

This is the time when many successful and highly-taxed business owners and professionals seek our advice on preserving their hard-earned money.

As an *Investor's Digest* reader, you already know the value of investing in good companies, but you may not be aware that investing in good causes can save a lot of tax.

Once people understand they won't run out of money – in fact, they will probably have more of it when they die than they have today – they realize the need to look after future taxes now, keeping money in the family instead of remitting it to the tax department.

We like to show people how to use that "never spend" money, in a way that won't impact their lifestyle, to preserve their wealth for their family and charities they are passionate about.

Many people donate to charitable causes to affirm their own values, like compassion for those in need, or due to a personal connection with a specific charity or cause. Donors often weigh the costs and benefits of giving, including intangible benefits for themselves, such as the positive feelings they get from being charitable or looking good to others.

There's another great reason to give, which I hinted at earlier: it lowers your tax bills. When I explain to clients how to give generously and save on taxes, they become keenly interested in hearing the strategies available.

There are many ways you too can be generous, ranging from a gift in your will or a bequest where you name a charity in your will and make it a beneficiary of your estate, to donating marketable securities and buying tax-exempt life insurance.

No two situations are exactly alike so there are no cookie-cutter solutions. All the moving parts working in harmony will allow you to be both philanthropic and tax-advantaged.

Consider these strategies to improve your own finances:

Use marketable securities: John, a successful business owner, had a tax liability of more than $1 million coming due in 2018. His large portfolio of marketable securities had quadrupled in value since he bought them more than 10 years ago. He had "pregnant" unrealized capital gains on certain securities and would face a 25 per cent capital gains tax (in Ontario) when he sells them.

With $10 million worth of low-cost shares in his portfolio, he would have a $2-million capital gains tax liability if he liquidated those shares.

We set up a donor-advised fund (DAF) within a public foundation, a practice that allows donors to enjoy full tax benefits for their contributions to charity without having to disburse any money right away. He donated $2 million (market value) of those appreciated shares into his new DAF, all of it a charitable donation and received a charitable tax receipt that saved the $1 million in tax due in 2018. On top of that, he saved the $250,000 of capital gains tax that would have been paid had he sold the stock. By donating the shares, the capital gains tax was eliminated.

That was just the beginning for this newly minted philanthropist. He originally donated $2 million to the DAF, and over the following year, that money in his DAF (as invested by the foundation) rose by 10 per cent, adding a further $200,000 to the DAF. Every year, according to DAF rules, a minimum of four per cent must be distributed.

To further enhance this approach, we used the $200,000 of interest on his charitable fund to acquire a $10-million joint-and-last-to-die life insurance policy owned by John's charitable foundation. In other words, that charity money - $200,000 - creates a further $10-million charitable gift upon the death of John and his spouse.

Donating marketable securities is particularly tempting for many investors, especially if they bought low-cost stocks, like cannabis companies' shares, even a year ago.

Benefit from life insurance while alive

Most people think the only benefit from a life insurance policy occurs when they die. This example illustrates how you can benefit from life insurance while you are still alive.

Harold, a retired accountant in his mid-60s, had a $500,000 life insurance policy he didn't really need. He wanted to donate the policy to his alma mater, so we arranged for an independent actuary to determine its current value.

Because Harold was now uninsurable (due to some health issues), the actuary valued the policy at $290,000. Harold donated it to the university, received a charitable donation receipt for the entire $290,000 value, and saved about $145,000 in taxes.

Going forward, he could have continued to pay the insurance premiums and received charitable tax receipts for the amounts paid, lowering his taxes in the future.

He really didn't want to continue paying the premiums on his gifted policy, so the school (as happens in many such situations) found a generous donor who agreed to pay all the future premiums. The donor paying those premiums receives an annual charitable receipt for his donations, and the university recognized him, along with Harold, for his generosity.

Tax tip: Most Canadians donate to charity using cash, credit cards or a cheque. In truth, that's the least efficient way to be philanthropic. If you have invested in the stock markets over the past 10 to 15 years, you undoubtedly have some appreciated securities with "pregnant" taxable gains.

Simply donate some of those shares and receive a charitable receipt for their full (appreciated) value and pay zero capital gains taxes on them.

Donate corporately

Donating personally provides you with roughly 50 per cent tax savings, but to get a bigger bang for your buck, donate funds corporately and enjoy a 100 per cent corporate deduction.

A corporation using marketable securities for a donation also doesn't have to pay any capital gains tax. In this instance, the gains on the donated funds are credited to the company's Capital Dividend Account (CDA) and can now be withdrawn tax-free and used for whatever purposes you want.

Take the example of a marketable security with an original cost base of $10,000 that is now worth $50,000. Donating those shares produces a corporate deduction for the entire $50,000 value, eliminates capital gains tax of $10,000 on the sale, and adds a $40,000 credit to your Capital Dividend Account which you can now extract from your company tax-free.

Selling your business? Save taxes!

If you are about to sell your business, this would be the year you will probably have your largest tax bill ever - so consider making your largest charitable donation, too.

Consider donating to charity the amount of funds that will offset all or part of the tax bill and then use the credit that would be available in the Capital Dividend Account to buy some corporate-owned life insurance, the subject of my September 2018 *Investor's Digest* article. Doing so will allow you to donate generously and reduce or eliminate your taxes. Meanwhile, the corporate-owned life insurance will ensure that your family is covered and reimbursed fully for all your charitable good will.

CPP philanthropy™

Create a large charitable gift using funds supplied by the government. A husband and wife, both 65, received CPP benefits totalling about $26,000 a year.

That money gets taxed, invested and re-taxed again. They live in Ontario, didn't need those funds to pay their bills, and pay tax at the highest marginal tax rate of 53.53 per cent.

Using just the CPP benefit "never spend money" to pay the premiums, we structured a joint-and-last-to-die life insurance policy in the amount of $1.4 million. The couple's favourite charity is the beneficiary and will receive the insurance payout on the death of the second spouse. Alternatively, they could make the charity a beneficiary and create a donation receipt of $1.4 million, saving their estate about $700,000.

CPP philanthropy™, the subject of my November 2017 *Investor's Digest* article, involves many additional ways to use those CPP benefits to fund your charitable aspirations and save a lot on taxes.

RRSPs and RRIFs

If you are single, divorced, widowed or never married, the tax department will scoop up to 54 per cent of your RRSP or RRIF (registered retirement income fund) savings when you die, and probate fees can gobble up another 1.5 per cent in Ontario.

If you designate a charity as the beneficiary of some or all of your RRSP or RRIF, you can effectively eliminate the tax liability.

Create your own family legacy

Donating to favourite charities can be emotionally fulfilling and financially rewarding, reducing your current or future tax load. It can also enable you to save more for those near and dear to you while creating a family legacy that will carry your name for many years to come.

Please keep in mind that the above strategies are not an "all or none" proposition. We would be happy to help you navigate your available giving options. Don't hesitate to contact us for a no-obligation consultation on your personal situation.

We love helping generous people who don't like high taxes. They much prefer to support their favourite causes with their savings over surrendering them to the government. Our strategies allow that to happen.

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®. 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. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you to act. He will simplify the complicated, so you and your family can rest easy. He can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com. Visit WEALTHinsurance.com and get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html.