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Your Guide to Tax-Saving Strategies

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ESTATEPLANNING

Be Philanthropic

Improve Your Own Finances

Mark Halpern, CFP, TEP

This is a magical time of year, when cold and dark nights contrast with the warmth of families joyfully gathering to reminisce fondly about holidays past and creating new memories for the future.

Those cozy gatherings celebrate a family's good fortune and shared blessings. Often time they include discussions about charitable giving and philanthropy that stem from conversations parents, grandparents and children have about giving back. This is also an opportune time to inspire future generations. And the way to best execute on this idea is to discuss tax and estate

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and one of Canada's top life insurance advisors. He is CEO of WEALTHinsurance.com® and illnessPROTECTION.com®, with special expertise for business owners, entrepreneurs, medical professionals and high-net worth individuals and their families. He can be reached at 416-364-2929, toll-free at 866-566-2001 or mark@WEALTHinsurance.com.

planning and how investing in good causes will save a lot of tax.

When parents and grandparents 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, 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 a personal connection with a specific charity or cause. Donors often weigh the costs and benefits of giving, including intangible benefits for themselves, like the positive feeling one gets from

being charitable, or looking good to others.

There's another great reason to give. 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, from a gift in your will or a bequest where you name a charity in your will, make the charity a beneficiary of your estate, donate marketable securities or buy 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 10+ years ago. He had ‘pregnant’ unrealized capital gains on certain securities and would face a 25 percent 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 (invested by the foundation) rose by 10 percent, adding a further \$200,000 to the DAF. Every year, according to DAF rules, a minimum of 4 percent 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 shares, even a year ago.

Benefit from Life Insurance While You Are Alive

Most people think the only benefit from a life insurance poli-

cy 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 along with Harold, was recognized by the university for their 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 (appreciat-

ed) value and pay zero capital gains taxes on them.

Donate Corporately

Donating personally provides you with an approximate 50 percent tax savings, but to get a bigger bang for your buck, donate funds corporately and enjoy a 100 percent 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 of 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 - so consider making your largest charitable donation. 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 May 2018 TaxLetter® article. Doing so will allow you to donate generously, reduce or eliminate your taxes, and 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 percent.

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. Their 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 Oct 2017 TaxLetter® article, presents additional ways to use those CPP benefits to fund your charitable aspira-

tions and save a lot on taxes.

RRSPs and RIFs

If you are single, divorced, widowed or never married, the tax department will scoop up to 54 per cent of your RRSP or RIF 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 RSP or RIF, 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.

Our Passion

We love helping generous people who don't like high taxes. They much prefer to support their favourite causes using the money that would otherwise be going to the tax department. Our strategies allow that to happen.

Wishing you and your family a healthy, happy and prosperous 2019. □

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. Incompleteness rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. 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 Get your FREE Estate Planning Toolkit at WEALTHinsurance.com/toolkits.html The 2018 Toolkit now includes:
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