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ESTATEPLANNING

Be Charitable

Philanthropic Resolutions

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As a new year approaches, people often rush to make charitable donations in order to get a receipt that can be applied against 2022 taxes due. However, reaching for your chequebook or credit card to make last-minute. donations is the least cost-effective tax strategy.

We've identified more than 20 ways to be even more charitable - all of them more tax and cost-effective – allowing you to maximize your impact and minimize your tax. This year, as you celebrate the holiday season, I encourage you to look around at your loved ones and consider how you can build a more enduring philanthropic legacy.

Make a new year's resolution to do better and give yourself the gift of even more tax savings.

1. Set Up a Donor Advised Fund (DAF)

DAFs are probably the greatest hidden treasure for philanthropy in Canada. You can establish a DAF – personally, corporately, or both – which will allow you to donate to one entity, receive one tax receipt and subsequently distribute money to any registered charities in Canada. The nice part is that you don't have to decide right away. A DAF is the "light" version of a private foundation, involving far less paperwork, disclosure, and administration, enabling you to donate now (and get a tax receipt now) and then strategically determine where to direct your money. It can be a good complement to many of the donation-maximizing strategies below. Contact us to obtain a copy of our one pager on this topic.

2. Donate Appreciated Securities

When you sell stocks, exchange-traded funds, mutual funds or segregated funds at a higher price than you bought them, half of the capital gain is taxable. While it's great that a publicly traded security's price went up, these investments are essentially a future tax liability. Fortunately, you can get around this if you donate those stocks "in kind" to a registered charity or your DAF. In that case, you get a tax receipt for the current fair market value of the donated securities, and you pay no tax on any capital gain.

If you have appreciated securities you want to sell, donating them makes much more sense than selling them, paying the capital gains tax, and donating the cash that's leftover. So, anytime you're thinking about donating, consider whether you have appreciated stocks you can give the charity instead of writing a cheque or charging your gift to a credit card.

And if you love the securities so much, you can always buy them back again at the current market value.

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3. Donate Savings from Tax-Loss Selling

It's been a challenging year for many investors, unaccustomed to high levels of market volatility. Your portfolio may contain investments in a loss position, and you may have decided to sell some because you don't think they'll recover. Selling at less than your adjusted cost base results in a capital loss that you can apply against capital gains in the prior three years or in any future year. If you save taxes through tax-loss selling, consider donating all or some of the money you save as a moral victory from market challenges.

4. Donate Existing Permanent Life Insurance

If you have a permanent Life Insurance policy that you no longer need, consider gifting it to charity. You have the option of simply changing the beneficiary designation on the policy to the charity. There is no immediate tax benefit, but your estate will receive a donation receipt for the death benefit after you pass away. You can also donate the policy itself to the charity. In that case, you'll get a donation receipt for the fair market value of the policy that you can apply against taxes due on your next tax return. Any premiums you continue to pay on the policy will also receive donation receipts. One note of caution: Beware of the 3-year and 10-year redeeming provisions to ensure that you get a fair market value receipt and not just the cost base value.

5. Donate Existing Term Insurance

Term insurance provides Life Insurance protection for a specific term. Most people wrongly assume that it has no residual value at the end of that term. However, before a term policy expires, you have the option of converting some or all of it to permanent insurance with no medical evidence required. If you don't need the Life Insurance protection for yourself, you can donate the insurance policy to a charity. As above, you'll get a donation receipt for the fair market value to save you taxes, and any future premiums are tax-deductible charitable donations. The best prospects for this are older people with health challenges. This will provide the best fair market value donation receipt.

6. Donate A New Life Insurance Policy

You can also buy and donate a new Life Insurance policy to your favourite charities. Again, the premiums you pay are charitable donations. And when a charity owns permanent insurance – and this applies to strategies 4 and 5 as well – it doesn't have to wait for the insured individual to die in order to benefit financially. Instead of reinvesting dividends in additional insurance coverage (which keeps the dividends from being taxed when held outside a charity), the charity can receive the cash dividends every year with no tax consequences. It can also access the cash surrender value (CSV) of the policy with no tax consequences. Either approach allows the charity to put your legacy gift to work while you are alive to see it.

7. Donate Flow-Through Shares

Flow-through shares are issued from certain resource companies in the mining, oil and gas, renewable energy and energy conservation sectors. They flow through the exploration and development expenses to investors that junior resource corporations can't benefit by claiming, making the shares a very tax-effective investment. They're also an extremely cost-effective donation vehicle. For example, if an Ontario resident taxed at the highest marginal rate of 53.5 per cent donates cash, the after-tax cost is 49.6 per cent. If that same person donates flow-through shares, the after-tax cost could be as low a 5-15 per cent based on the availability and jurisdiction. Some examples of flow through share companies are PearTree Canada, Oberon Capital Corporation, Ber Tov Capital, WCPD and more. Contact us to obtain a copy of our analysis, "After-Tax Cost of a Donation".

8. CPP Philanthropy™

If you are "financially fortunate", you probably don't need your Canada Pension Plan (CPP) benefits to fund your expenses in retirement. That money just gets taxed, invested and taxed again. We call it "The Tax Grind". And it ends when you die. Instead, you can use only this government-supplied "never spend money" to pay the premiums on a Life Insurance policy. A married couple receiving about $26,000 of CPP benefits annually can purchase approximately $1.4 million in permanent Life Insurance using those funds and not pay taxes on their CPP income!

There are multiple ways to apply the CPP Philanthropy™ strategy, ranging from saving your estate about $700,000 in taxes to leaving an additional $1.4 million to your family. Contact us to obtain a copy of our CPP Philanthropy™ one pager.

9. GPS – Gift Pension Strategy™

Create an exceptional charitable gift that combines favourable elements of an Annuity, Life Insurance, Philanthropy and Tax to achieve guaranteed income, maximize legacy gifts, create annual gifts, and save taxes.

There are 4 ways to implement the GPS – Gift Pension Strategy™. Using a $1 million gift as an example, you can receive guaranteed annual income of more than 9 per cent, donate from $1.63 million to $2.7 million to charity, or leave an additional $1.7 million for your family PLUS a $1 million legacy gift to your favourite charity or DAF. Contact us to obtain a copy of our one pager on this strategy.

10. RRSP/RRIF Tax Converter™

Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs) are a great savings vehicle that defer taxes on investment growth, for as long as the money remains within the plans. Eventually, the accumulated money has to come out. And that's when the problem arises – because all the withdrawals are taxed as regular income.

In Ontario, high earning taxpayers lose 53.35 per cent of those savings to the tax department. A $2 million RRSP/RRIF is worth only $920,000 to your heirs.

Consider using the RRSP/RRIF Tax Converter™ strategy to donate all or part of your RRSP or RRIF to your own charitable fund (Private Foundation or Donor Advised Fund) or favourite charity, leaving nothing to the tax department. Your gift can be amplified by using some of the transferred money to purchase a Life Insurance policy owned by the charity, your personal foundation or DAF. Contact us to obtain a copy of our one pager on this strategy.

The foregoing strategies are just a sampling of the opportunities available to realize your charitable vision and reduce your tax bill. But don't do it alone, this is not a DIY project.

Our advisors across the country are available to help you navigate the process. Please reach out to us anytime. We're committed to maximizing your gifts to charity while achieving maximum tax savings, and we'd love the opportunity to help you meet your philanthropic objectives.

Wishing you and your family a healthy, happy and charitable 2023. ❑

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP), Master Financial Advisor-Philanthropy (MFA-P) and CEO of WEALTHinsurance.com

He guides successful business owners, professionals, and affluent families through the complex process of ensuring the people and organizations they care about are taken care of. If you are like his other clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy.

Mark collaborates with your professional advisory team to achieve your desired outcomes. His simple approach makes sure what is important to you gets done. He will suggest appropriate strategies to get your financial affairs meticulously organized, help you take action, and simplify the complicated so you and your family can rest easy. Mark can be reached at 416-364-2929, toll-free at 1-866-566-2001 or Mark@WEALTHinsurance.com

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-Estate Planning Checklist

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