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Strategies for charitable giving and tax saving

Mark Halpern is a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®

Many of our most important and cherished institutions like hospitals, universities and museums are made possible through funding by generous and benevolent donors.

The good news is that you don't have to be rich and famous to leave a substantial gift. There are several little known strategies using your government pension benefits to help the causes you care about while preserving wealth for your family.

Every Canadian has three possible beneficiaries to their estate: family, charity and the tax department. We can only pick two. Most people prefer to minimize what the Canadian Revenue Agency (CRA) gets.

The monthly Canada Plan Pension (CPP) benefit, if not needed for retirement income, can fund a permanent life insurance policy and result in substantial windfalls for your favourite causes and your family.

Take the example of a husband and wife, both 65, who receive monthly CPP benefits of about $1,100 each, totalling about $26,000 a year. They live in Ontario and pay tax at the highest marginal tax rate, 54 per cent.

They don't need the CPP money. It only gets taxed, re-invested and then, yes, taxed again.

STRATEGY 1: Life insurance policy owned personally – tax savings later

Use the CPP benefits to pay the premiums on a joint-and-last-to-die life insurance policy for $1.4-million. The charity, as beneficiary, will receive the insurance payout on the death of the second spouse. Their estate will receive a donation receipt for $1.4-million and save the family about $700,000 in taxes.

STRATEGY 2: Life insurance policy owned by charity – tax savings now

As above, create a charitable gift of $1.4-million using joint-and-last-to-die life insurance, this time with the charity as owner and beneficiary of the policy.

Use the CPP benefit to pay the policy premiums and receive an annual charitable donation receipt of $26,000, mitigating the tax payable on the pension benefit and replacing it with a large gift.

STRATEGY 3: Donate RRSP/RRIF – by will or beneficiary designation

RRSP/RRIF will be fully taxed as income (at up to 54 per cent in Ontario) on the second death. A $1-million RRSP/RRIF will only be worth approximately $460,000 to their family, after taxes.

This strategy designates a charity as beneficiary of the RRSP/RRIF, which mitigates the RRSP/RRIF taxes.

To replace the $460,000 that would have gone to the family, use some of the CPP benefit to fund a $500,000 life insurance policy to fund the tax liability, or use the entire CPP benefit to purchase a $1.4-million joint-and-last-to-die insurance policy, with the family/estate as the beneficiary.

On the second death, the life insurance policy pays out $1.4-million tax-free to the family. This represents an additional $940,000 for the family (compared to $460,000) plus a large gift to charity.

Money allotted in a will may have to go through probate, and there could be additional costs, so don't do this alone. Seek advice from an experienced tax and estate planning professional.

Charitable giving, using your own funds or government benefits, can help the organizations you care about while benefiting your own family.

Aside from financial metrics, you will demonstrate and teach by example the importance of charitable giving. That's real legacy planning for your children and future generations.