Financial Wisdom

- Wealth Manager -

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Your Legacy Plan and Charitable Giving

Recently, a client wanted to leave all their money to two charities through their Will. They wanted to leave a legacy to a few charities, and they didn't have any close family members.

Here is her situation: Age 80, $550,000 in savings (75% non-registered and TFSA), with income of $70,000 annually from pensions and RRIFs. She was also spending an additional $20,000 a year from savings to support her lifestyle.

While it is common to use a Will to donate money to charity, there are other options to consider that could increase the donations by over $100,000.

Here are 3 problems with leaving money to charities in the will:

1. A donation through a Will may result in a charitable tax credit of between 40% and 50%. The catch is that the charitable tax credit is limited to up to 75% of net income and 100% of earned income in the year of death[1].

For example, if you make $100,000, you could give up to $75,000 or $100,000 in the year of death and receive the full tax credit.

The problem is that if you have income of $80,000 in your final return, and leave $800,000 to charity, you will have potentially lost almost $360,000 of tax credits! The loss of tax credits may be partially offset if the full value of RRIFs or RRSPs is included as taxable income [1].

2. Large donations through a Will are often contested by family members who feel that they should have received more. This can cause additional delays and added legal costs.

3. Finally you may be paying too much current income tax if you do not use all the income earned while you are alive. When the assets do get distributed to the charities through the Will, the probate fees may be as much as 1.5%[2].

By donating surplus assets to Charities annually is one way to reduce current income taxes while also maximizing the tax credits available to the Estate later. Community foundations, a private foundation and donor advised funds can also be used to maximize your charitable tax credits.

Finally, an often-overlooked option is the **use of a life insurance policy to leave a charitable legacy**. There are a number of advantages if the policy is structured properly. The annual premiums can count as a charitable donation. The proceeds are paid directly to the charity avoiding any court challenges from potential heirs and it also **avoids any probate fees** otherwise payable by the Estate. Finally, the policy may provide an attractive after tax rate of return compared to other investment options.

Most people can still qualify for life insurance into their 80's so age need not be a barrier . In this case, the life insurance strategy could increase the capital amount donated to the charities by over $100,000 while her annual premiums would be deductible resulting in reduced annual income taxes.

We can help you maximize your charitable giving today!

Adrian Greyling

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