PLANNED GIVING

"LEAVING YOUR LEGACY"

In my last edition, I commented on the benefits of having a "Will" in place to effectively plan for the distribution of your estate when you are no longer around. Having a Will also enables you to make a contribution to a charity or non-profit organization that you or a family member may have a particularly strong association with.

The decision to plan a gift for tomorrow will also bring you benefits today. By creating your own legacy, you can take some control over the future and build a bridge to coming generations. The rewards go beyond the personal as you will better the lives of individuals and their families and inspire many people in our communities to work toward and invest in a brighter future for society. There are also fiscal advantages when contemplating a gift in your financial and estate plan.

Although many British Columbians continue to make donations to charitable organizations while they are alive, many of us are unaware of the various methods and available benefits associated with giving a charitable gift when we die. As governments continue to divest their social services responsibilities, the concept of community-building becomes vitally important to the survival of such organizations and their visions.

Many of us may query, "I really don't have much to leave, so why bother!". Giving a gift through your Will or a Trust does not have to be painful or costly. In fact, the Federal Government has recognized the importance of charitable giving by creating a more flexible environment for making a gift. Although receiving a tax benefit remains a strong incentive for many in making a charitable gift, the overriding rational for many continues to be the "social benefit" attached to making such a gift.

What are some of the charitable vehicles available for making a gift and which one(s) are most appropriate for me? A planned giving vehicle may be as simple as making cash bequest to a specified charitable organization in your Will. However, new approaches to planned giving may include life insurance policies, publicly traded securities or trusts. Each method will have its own associated benefits for the donor and the recipient. The following represent some of the more common planning vehicles worthy of consideration:

Bequests

Making a gift through your Will is a meaningful way to make a lasting commitment. You can bequeath a sum of money, an item, or any portion of your estate. You can also arrange to donate proceeds from your registered retirement savings plan (RRSP) or registered retirement investment fund (RRIF). Charitable tax receipts issued to your estate can offset taxes on your income in the year of death and in the previous year.

Life Insurance

Through relatively small life insurance premiums, you can provide a legacy of support. If you assign a new or an existing policy to a charitable organization, you will receive tax receipts for the value of the policy and for subsequent premium payments. Insurance proceeds are contractual in nature and do not fall within your estate, thus, you can avoid probate fees and other taxes. Alternatively, you can designate a charitable organization as the beneficiary of the policy and a tax receipt will be issued to your estate.

Gifts involving Annuities

You can buy an annuity and then use a portion of the annuity payments to pay premiums on a life insurance policy assigned to a charitable organization. You'll receive charitable tax receipts for the premium payments. Remarkably, with this *charitable insured annuity* plan, your income may increase. It is even possible to structure the gift so that both the charitable organization and your heirs receive a return on the investment by using the increased income to fund the premiums on a life insurance policy naming your heirs or your estate as the beneficiary.

Another option is a *gift plus annuity* which combines a donation to support the charitable entity with an annuity which would be purchased by the charitable organization on your behalf through a licensed insurance company. Guaranteed annuity payments to you (and/or your spouse) will continue throughout your lifetime, unaffected by changes in the economy or interest rates. Depending on your age, you will receive all or a portion of the annuity payments tax-free and may receive a tax receipt.

Trusts

You can make a gift today and benefit from the donated assets during your lifetime. You can accomplish this through a trust to which you transfer cash or assets. You or someone chosen by you will then receive either a *fixed payment* or *interest income*. When you transfer property to a trust, you receive a charitable tax receipt for the present value of the charitable entity's interest. Trust assets are placed outside your estate and the tax receipt may be used to reduce your taxes during your lifetime. When the trust terminates, the remaining assets will be used in the future to support the mission of the charitable organization of your choice.

Personal Assets and Real Estate

There are ways you can make a gift of personal or real property to a charitable organization and *retain a right to use* the property during your lifetime. The transferred property may be art, your residence or commercial real estate. In each case you will receive a charitable tax receipt for the present value of the charitable entity's interest which will offset taxes on your income. In addition, you may continue to use the property or receive income from it. At the end of your lifetime, the property may be sold and the proceeds will support programs and services of the intended charitable organization, as you have directed.

A gift of *publicly-listed securities* also provides significant tax advantages. Only 25 per cent of the capital gain (half the regular inclusion rate) will be included in your income. The charitable tax receipt will not only offset the tax payable, but other income as well - which could reduce the cost of the gift to 35 cents on the dollar. Similar advantages exist for gifts of stocks received through employee stock options.

If you make a gift today, you will receive a tax receipt. With the resulting tax savings, you could purchase a *life insurance* policy equal in value to the gift. The beneficiary of this policy could be your children or other heirs. In this way, the value of your lifetime gift would be *replaced within your estate* for your family's benefit. This plan may provide additional advantages: if you retain the property and it appreciates, capital gains would be taxable and therefore would reduce the amount going to your heirs. Using life insurance in this way allows proceeds to be paid to your family, tax free and without probate fees.

Or, consider having your *private company* make a gift to a charitable entity. The company could then use the resulting tax savings to purchase a life insurance policy on your life. Proceeds from the policy go to the company and to your heirs, tax-free through a capital dividend account.

The answer to which planned giving vehicle is most appropriate for you must be assessed in light of your goals, your financial abilities and your creativity. Consultation with professional advisors (lawyer, accountant, financial planner) and the associated Planned Giving Manager of the intended charitable or non-profit organization will ensure that the right gift plan is chosen for you.

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I caution my readers that the information expressed in this article should in no way be construed as legal advice. If you would like further information on this or any other topic please contact me at the address below.

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