Planned Giving: We Can All Benefit

By Gordon B. Clarke, CPP, CIM, OLS (Retired)

Charities, where would we be without them? From hospitals to food banks to universities, we all rely upon them at one time or another and these organizations work to improve our collective quality of life. But reduced government funding has put them under pressure so it is becoming increasingly important for individual Canadians to support them. Although governments are withdrawing from the charity business, fortunately tax rules are changing to make it easier for us to take up the slack.

What has the government done to make charitable donations enticing for individuals? It offers tax credits that make refunds independent of income. The federal tax credit is currently 16% for the first $200 and the maximum tax rate of 29% for anything over that amount. Factoring in the Provincial credit means that in Ontario, every donated $1.00 over the $200 mark yields close to a $0.46 tax credit. A donor may contribute up to 75% of net income for any taxation year. Except in the year of death when this is increased to 100% with the added provision of being able to carry any excess back to be used in the previous year.

A great example of a registered charity that relies on the generosity of donors for its funding and one that is well known to Land Surveyors in Ontario, is the A.O.L.S. Educational Foundation. Donations are necessary to fund its worthy mandate of providing educational support for future land surveyors. So Ontario Land Surveyors, and others, have an opportunity to fund a charity that can make a big difference in the long-term viability of their profession while at the same time saving significant taxes. By any definition, this is a win-win situation.

But there can be much more to charitable giving than just giving cash to a local canvasser, making payroll contributions to a major charity or bequeathing a sum of money in a will. Planned Giving means making a contribution in a manner that optimizes tax and estate planning benefits. It can mean contributing assets in a variety of different ways including gifts of property and life insurance. Some of these can result in a sizable donation at relatively little cost to the donor.

Let us look at some of the ways you can donate to your favourite charity and use the generous tax credits to your advantage.

Cash gifts:

Donating cash to a charity can give anyone a tax credit that matches the highest tax rate. In other words, the last dollar you earned may be taxed at a rate lower than what you would receive as a tax credit.

Gifts in kind

You can also donate capital property, like stocks and real estate. It must have a real value, not used goods or old furniture and the value of the gift is the fair market value at the time of the donation, irrespective of what it cost to acquire the asset. If the value has increased, there will be capital gains taxes owing but they are cut in half for publicly traded securities. This means that it is more tax efficient to donate a security than to sell it and donate the cash. (Please note that the rules regarding gifts in kind are in the process of being altered but should not affect securities.)

Life Insurance

Using life insurance is a great way for those of average means to make a sizable contribution fitting of a wealthy benefactor. There are a few basic ways to do this.

Name a charity as the beneficiary on an insurance policy on your life.
You continue to pay the premiums and the charity receives the death benefit. You are deemed to have made a gift to the charity immediately before death and are able to make use of the associated tax credits on the terminal tax return. Also, since the insurance proceeds do not pass through the estate, it will not be subject to probate taxes. A $25,000 policy could create close to $11,500 of tax relief in the year of death.

Assign the policy to a charity.
You may transfer a life insurance policy to a charity and if it has a cash value, you will receive the corresponding tax credit at the time of the transfer as well as a tax credit for any future premiums. Upon your death, the benefit will accrue to the charity but there will be no tax credits allowed for your estate. For example, a healthy 50 year old male could purchase a $25,000 Term to 100 policy and assign it to the A.O.L.S. Educational Foundation. He would pay the premium, which could be less than $33 per month and upon his death the Foundation would receive the entire $25,000 death benefit. Assuming that there were other charitable donations totaling at least $200 per year, the after tax cost would be approximately $18 per month: a very small price to pay for a $25,000 donation.

Name a charity as beneficiary in a will and fund the donation with insurance.
Another option is to name a charity as a beneficiary in a will and have a life insurance policy in place to provide the funds. The estate would be named as the policy's beneficiary and upon death, the estate would receive the tax-free insurance benefit and then transfer the money to the charity to satisfy the

terms of the will. A charitable receipt would be issued for the full amount and used to reduce taxes on the terminal return or may be transferred to the prior year.

Other possible donation techniques include Charitable Gift Annuities, Charitable Remainder Trusts and Endowment Funds. As well, there are a number of interesting ways that insurance can be used to maximize your donation and minimize the effect on the value of your estate.

Planned Giving is not just for the wealthy. As can be seen by the previous life insurance example, a small monthly donation can result in a charity, such as the A.O.L.S. Educational Foundation, receiving a significant amount of money. Rich or poor, proper planning involves an overall examination of your estate and retirement plans to determine which is more beneficial: giving now or deferring the gift to the estate or a combination of both.

Of course charitable donations should never be done for tax reasons alone but there is nothing wrong with taking full advantage of a circumstance that allows you to support a worthwhile cause and at the same time achieve tax savings for yourself or your estate. Planned Giving can take somewhat more work but the extra effort may be more than offset by the significant benefits.

(Tax laws are dynamic and complex. This summary is of a general nature only and is not intended to provide individual advice.)

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Calendar of Events

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April 16th to 21st, 2004

ACSM Annual Conference
Nashville, Tennessee
www.acsm.net

April 25th to 28th, 2004

GITA's Annual Conference 27
Seattle, Washington
www.gita.org

May 24th to 27th, 2004

Canadian Hydrographic Conference
Ottawa, Ontario
www.chc2004.com

May 24th to 28th, 2004

ASPRS Annual Conference
Denver, Colorado
www.asprs.org/denver2004

May 27th / 28th, 2004

AOLS Statutes Exam and Professional Oral Exam / Professional Written Exam
Toronto, Ontario
email: admin@aols.org

June 10th to 13th, 2004

Canadian Coalition of Women in Engineering, Science & Technology (CCWEST)
St. Catharines, Ontario
www.brocku.ca/fms/ccwest2004

July 8th to 11th, 2004

Council/AERC Summer Meeting
Windermere, Ontario
www.aols.org