# ESTATE PLANNING

Through gifting Life Insurance, Securities and Real Estate

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# DISCLAIMER

- This presentation is intended for information purposes only. It is not to be construed as advice. Cindy David is a licensed and practicing estate planner, however without proper engagement and information gathering, she can not know if any of the information is a good fit for anyone in the audience.

# WHAT CONSTITUTES A GIFT?

- CRA Definition:
- “a voluntary transfer of property without valuable consideration”
- Allowable gifts are cash, gifts in kind ie. Stocks, real estate, a right to future payment (life insurance), certified cultural property (art/artifacts)
- A gift can be given now or deferred to a later date
- Not all donations qualify as “gifts” for tax purposes

# WHO CAN YOU GIVE TO?

- Anyone you want if tax receipt is not important, however other tax considerations are:
  - Income attribution
  - Income splitting
- Otherwise, there are 85,000 approved charities CRA authorizes to give tax receipts for donations
  - Charitable organizations, public and private foundations, registered amateur athletic assoc., alllll forms of government, the UN, Foreign charities, Foreign universities

# GIFTING SECURITIES

- Better than selling off your portfolio to give cash
- Gifting securities with embedded capital gains (CG) effectively eliminates the CG tax payable
- Current CG inclusion rate is 50%
- Gifting the shares to charity results in NO TAX and a tax receipt for the FULL DONATION
- Available since 2006

# GIFTING REAL ESTATE

- Again better than donating cash
- Charities don't pay capital gains taxes, so gifting real estate investments that have increased in value results in the FULL VALUE going to the charity
- Some mutual fund companies have donor advised funds that accept real estate donations that give you more input on how your contribution is to be invested

| Original Purchase: **$400,000** | Market Value Today: **$1,500,000** | |
|---|---|---|
| | Franco sells property and donates proceeds: | Franco donates his property directly: |
| Long Term Capital Gains tax paid (23.8%) | $261,800 | $0 |
| Charitable contribution/deduction | $1,238,200 | $1,500,000 |
| | Additional amount to charity: $261,800 | |

# GIFTING USING YOUR WILL

| Pro's | Con's |
|---|---|
| • Can save a great deal of tax<br>• You know you no longer need the money<br>• Donating specific assets like RRSPs/RRIFs or capital property can eliminate a lot of the estate taxes<br>• Flexible, you can change your mind by altering your Will<br>• Donate % versus $ | • Subject to being challenged<br>• Creditor and estate administration costs erode the gift<br>• Taxes not offset by the terminal year tax credit can erode the gift<br>• Might miss tax credits against income in the year of death (ie. Dying early in the year)<br>• Probate applies (1.4% in BC) |

# GIFTING LIFE INSURANCE – STILL BREATHING

- Cost effective way to make a larger contribution than otherwise possible
- Can give new or old policies
- Eliminates problems that can be created by gifting using your Will
- No estate disputes under BC's Wills, Estates and Succession Act (WESA), March 14th, 2014 if charity owns the policy but this results in no further deductions from death benefit at death
- You can donate an existing policy for fair market value

# GIFTING LIFE INSURANCE – NOT BREATHING

- Naming charity the beneficiary versus making them the owner
- PRO's:
  - You can change your mind
  - You have access to cash value if needed
  - No probate or administration fees
  - Private…anything your Will gives away becomes a matter of public record
  - Donation receipt to estate most likely much larger than cumulative premiums

# GIFTING LIFE INSURANCE – NOT BREATHING

- Naming charity the beneficiary versus making them the owner
- CON's:
  - No tax receipts during lifetime against income for premiums
  - Difficult to change owner, beneficiary and some parts of the policy contract if dementia is present; special mention in your Power of Attorney is necessary

# CHARITABLE **GIFT** ANNUITIES

- Also known as "gift plus"
- Charity retains 25-30% of a lump sum donation and uses the balance to purchase annuity
- Donor owns the annuity and receives annuity income
- Annuity can pay for limited number of years, or life, and can be joint or single life
- The gift is irrevocable
- Most of the income is tax-free depending on your age (70+)

# CHARITABLE **INSURED** ANNUITIES

- Combine the tax advantages of a life insurance policy and an annuity
- Annuity income pays the insurance premium, you keep the rest
- You choose whether you get a receipt for the premiums or the death benefit
- **Result:** Better than GIC income to the donor, and the charity receives "no hassle" cash at death
- **Issues:** Being "mature" enough to make the numbers appealing, and then qualifying for the insurance!

# TIPS

- Couples can pool receipts and report on one return
- You can accumulate receipts for up to 6 years and make one combined claim in a year where income is higher (RRIF meltdown, improve OAS clawback)