

▶ planned giving

2007-11-MAST

Planned giving means tax savings

Canadians can be very generous when it comes to charity. But few use a strategy of “planned giving” to maximize the benefits to their charities of choice - and their own tax savings. In fact, only 4% leave charitable bequests, says the Canadian Centre for Philanthropy.

Here’s a rundown of the main types of planned giving. As you’ll see, many of them offer benefits over and above the charitable tax credit associated with a simple donation of cash or assets.

Bequests in a will

Through your will, you can direct that some, or all, of your assets go to one or more specific charities. The resulting charitable tax credit can be used to offset any taxes payable by your estate, or carried back to reduce your income tax payable for the year preceding death. Some people choose to donate their entire Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) assets, which otherwise would be fully taxable on death.

Ordinarily, you can donate a maximum of 75% of your net income to claim a charitable tax credit. But in both the year of death and the preceding year, the limit is higher. Up to 100% of net income donated can qualify for the credit.

Donations of life insurance

Naming a charity as beneficiary of a whole life or universal life insurance policy is an effective way to leave a sizeable sum for a relatively small monthly premium. You can donate an existing policy or a new one. The premiums also qualify for a charitable tax credit in the year you pay them.

Charitable annuities

With a charitable annuity, the donor contributes a large amount to charity now, and receives lifetime income from it. With a “charitable gift annuity,” the donor takes less income and receives ongoing tax credits as well.

Charitable remainder trusts

In this arrangement, an irrevocable trust holds investments marked for a charity on your death. You get the investment income in the meantime - plus charitable donation tax credits now, based on your life expectancy. This strategy prevents heirs from challenging a bequest in your will. Your will could also create this trust at death, to make the donation but provide ongoing income for your spouse. Your estate or spouse could get the tax credit.

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Charitable residual trusts

These are similar to remainder trusts, but they cover real property such as a cottage or artwork. You get full use until death, when the charity takes possession.

Donor-advised funds

Several mutual fund companies offer these specialized arrangements that resemble the private foundations that are used by the wealthy, but are generally inaccessible to those of more modest means. Your donation goes into a charitable foundation, which issues a tax receipt. The foundation invests the money. A withdrawal is made every year and donated as you've directed.

It's best to explore planned giving opportunities with the help of a qualified professional. I'm always available to provide you with answers to any questions you may have, or help you create your family's planned giving arrangements.

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