Leaving Money to Charity? There is a Better Way

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Recently, a client wanted to leave all of their money to two charities through their Will. They wanted to leave a legacy to a couple of charities that were close to them 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 RIFS while living in an upscale retirement residence. She was also spending an additional $20,000 a year from savings to support her lifestyle.

While using a Will to donate money to charity is a common tactic there are other options to consider that could grow the amount donated by this individual by over $100,000.

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

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

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 RIFs or RRSPs is included as taxable income.*

2. Often large donations through a Will are 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 taxes if you do not use all of the income earned while you are alive. When the assets do get distributed to the charities through the Will, you will also pay probate fees of as much as 1.5%.*

One way to reduce your current income taxes is by donating some of your surplus assets to the Charities annually. This will also maximize the tax credits to the Estate. The charity will also benefit today instead of having to wait for many years.

There are a number of options to consider in order to maximize your charitable tax credits. These include using community foundations, setting up a private foundation and donor advised funds.

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.

People can qualify for life insurance into their 80's so age need not be a barrier. If they are not medically qualified they can also borrow a life? to still put a program into effect.

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.

Leaving significant money to charity can be of great value to you, the charity and society at large. Call us today to review the best options for your situation to maximize the size of your charitable gifting strategy.

* Financial Post, March 2013

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