CESTNICK

TAX MATTERS

Think outside the gift box when donating to charity

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Have you heard about the clown who donated his RRSP to charity? It was a nice jester. I promise that's the last bad dad joke you'll hear from me this year. But I do want to talk about creative ways to increase the amount you might be able to donate to charity that involve your CPP, RRSP or insurance.

Use your CPP to donate. Let's suppose that you're fortunate enough to not need all your Canada Pension Plan (CPP) benefits to make ends meet in retirement. In this case, you might choose to defer those benefits until age 70 (the latest age to begin benefits) since you'll collect more by doing this than if you start collecting as early as age 60.

But what if, instead, you collect your CPP starting at age 60, or 65, and use those funds to donate to charity? Your monthly benefits can currently be as high as $1,254 (the average is $728 per month for those collect at age 65), which would amount to a donation of more than $15,000 for the year, and tax savings of in the range of $6,000 to $7,500 depending on your province and income level.

Want to really boost your donations? Consider using your CPP benefits to fund a life insurance policy on your life, or jointly on the lives of you and your spouse (only one spouse needs to be insurable). When you (or your spouse) die, the insurance will pay out and those funds can be donated to a charity of your choice.

Use your RRSP or RRIF to donate. Your RRSP will only be around until the end of the year you reach 71. Then, you'll have to start making withdrawals, which most people do by converting their RRSPs to RRIFs (registered retirement income funds.) However, converting to an annuity is also an option – one that may become more common if interest rates continue to rise.

You'll face tax on any withdrawals from your RRSP or RRIF, and while there may be withholding taxes deducted, those withholdings may not be sufficient to cover the total taxes owing on the withdrawals. This can result in having to pay more taxes when you file your tax return for the year.

If you don't need all your withdrawals to meet your costs of living, consider donating some of those dollars. You'll receive a donation tax credit which will generally eliminate the taxes owing on

the portion of your RRSP or RRIF withdrawals donated. This could eliminate enough tax that you won't have to make that additional tax payment when you file your tax return and might even result in a refund of the withholding taxes paid.

By the way, if you plan ahead, you can avoid the withholding taxes on RRSP or RRIF assets that you're donating to charity by transferring the funds directly to the charity. Speak to your financial institution about this.

Finally, consider using some of your RRSP or RRIF withdrawals to pay the premiums on a life insurance policy to create an even bigger gift to charity when you're gone – assuming you or your spouse are insurable, of course.

Use a life insurance policy to donate. There's more than one way to donate life insurance to charity. First, consider donating an existing policy that you don't need or want any more. Even a term insurance policy could be donated, in which case the charity could covert this to a permanent policy that will pay out to the charity when you die. You'll receive a donation tax credit for the fair market value of the policy donated (which is often the cash surrender value in the case of a permanent policy), plus a donation credit for any premiums you pay on behalf of the charity going forward (some charities can fund the premiums without your help, but speak to the charity about this).

Alternatively, you could continue to hold the life insurance policy and simply name the charity as beneficiary. Although you won't receive a donation credit for the premiums you pay in this case, your estate will be entitled to a tax credit for the insurance donated after you're gone. This could save tax in your year of death, and the credit can even be carried back to the year prior to your death to offset taxes on any income in that year as well, or carried forward by your estate for up to five years to offset taxes in your estate after your death. See my article from Nov. 18, 2021, for more ideas.

Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc. He can be reached at tim@ourfamilyoffice.ca