

LEGACY BOND

Would you like to give more to charity and less to the government?

If your answer is “YES”, you might want to consider a donation in your will. A legacy bond will help you fund that donation.

Here’s the problem.....estate taxes @ death.

In order to protect the value of your estate, it is important to understand the problems that emerge when the owner of an estate dies. Generally, the growth of their estate is taxable upon death unless it is transferred to a surviving spouse (which only defers the problem until the death of the surviving spouse). At the death of the second spouse, taxes are assessed as if all the assets are disposed of or sold immediately prior to death. The inclusion to your income of all registered accounts and capital gains growth; can have a significant tax impact on the estate.

Social capital planning looks at alternatives to funding your estate tax liability.

What are your options?

Option 1 - Allow the estate to bear the cost of the taxes at death.

The problem with this is that it could cost the estate a large portion of its total worth. Poor timing will magnify this dilemma if the sell-off has to be carried out quickly or during a period when the market values are down.

Option 2 - Make a charitable donation at death using existing assets.

In Alberta, our combined federal and provincial tax credits allow for a 50% tax credit for every dollar donated to charity (over \$200). We are also entitled to donate up to 100% of our income in the year we die. These tax changes now allow us to eliminate all our estate taxes through charitable donations, for every dollar of donation (\$1.00) we eliminate fifty cents (\$.50) of estate taxes.

Option 3 - Make a charitable donation at death using a Legacy Bond.

The **Legacy Bond** is an insurance contract on your life or your spouse and yourself jointly. The beneficiary of the insurance proceeds is your favorite charity and the insurance is paid tax-free at your death. The charitable donation created upon your death will reduce and possibly eliminate all of your estate taxes due at death.

The Legacy Bond leaves your heirs more of your estate; it also creates a legacy of philanthropy.

Consider that Ma and Pa Philein (both age 70) have a net worth of approximately \$1,000,000 comprised of a house worth \$500,000 and \$400,000 in their RRSP and \$100,000 in Term Deposits. Upon the last of Ma and Pa Philein to die; the estate taxes payable in Alberta would be about \$160,000. Ma and Pa have sufficient retirement income from their Pension, CPP and OAS income and are looking to allocate their RRIF income of \$250,000 @ 4% = 10,000/yr.

Compare the options.

Option 1 – The estate would pay \$160,000 in taxes leaving the heirs \$840,000.

Option 2 – Making a charitable donation sufficient to eliminate the taxes would require a donation of \$320,000. In this case the heirs would get \$680,000, a charitable donation of \$320,000 and no estate taxes.

Option 3 - The insurance industry has created a product that pays out on the last to die between spouses. The use of a joint last-to-die life insurance (**Legacy Bond**) to make the charitable donation is a very effective use of current assets and/or cash flow. A life insurance policy funding your charitable donation at death immediately guarantees your estate plan. The premium for Ma & Pa, age 70 (assuming insurability) is \$6,080/yr for \$320,000 of coverage. As Ma and Pa have \$10,000 in RRIF income they allocate some of these funds to pay the \$6,080 annual insurance premium. In this case the heirs will receive the full estate value of \$1,000,000, a charitable legacy of \$320,000 and no estate taxes are payable.

	Option 1	Option 2	Option 3
Net Worth	\$1,000,000	\$1,000,000	\$1,000,000
Estate Taxes	\$160,000	\$0	\$0
Donation	\$0	\$320,000	\$320,000
Legacy Bond	\$0	\$0	\$320,000
Heirs	\$840,000	\$680,000	\$1,000,000

The method of how you fund your estate tax liability is for you to decide. The important issue is to establish the amount of your estate taxes and make a conscious decision as to how you want to fund that liability and how you want it disbursed.

When you die there are three places your money can go; Heirs, the tax man or charity.

Now pick two!!!