ESTATE TAX ELIMINATION & SOCIAL CAPITAL PLANNING

Mom and Dad Philein are in their early 50's. They own a mid-sized construction business, now celebrating its 20th year. The Phileins want to give back to their community, knowing their success is largely due to the vibrant local economy. The Phileins also want to teach their children the importance of family legacy and values by demonstrating community involvement and engaging them in the process. They want their children and grandchildren to understand that individuals make a community strong through their ongoing support.

The family sought the advice of a professional advisor; someone who could help them identify financial resources while ensuring charitable contributions did not negatively impact their savings or retirement income.

The financial advisor took the Phileins through a wealth planning process. Together, they analyzed retirement and wealth transfer objectives and determined what estate taxes would be payable for each spouse upon death. Through this process, the Phileins discovered they had the "capacity to give" in excess of $15,000 per year.

At this point, the family had to determine whether they would simply make a charitable donation, or rather a long-term philanthropic effort. For a current income tax deduction, the Phileins could donate annually and receive a current tax receipt. However, the family is interested in having greater involvement than a basic annual donation.

The Philein's advisor suggested the family maximize their contribution by using an insurance policy. Using a portion of the amount designated for charitable giving, the family would pay annual premiums of $3,850 on a $700,000 joint and last to die policy. The death benefit of the policy is paid out to the estate upon the second death. A charitable donation equal to the death benefit is made to a charity of the family's choice. This eliminates all of the family's terminal estate taxes. Because the annual $3,850 has been maximized using life insurance, the ultimate benefit, for both the Phileins and the community, has increased exponentially.

As the chart illustrates, the Phileins could normally expect a tax liability of $282,000 upon the death of the second spouse. Through planning, the family has eliminated these taxes while protecting their heirs' estate and making a significant contribution to charity.

Current Net Worth : $650,000	With Charitable Contribution	Without Charitable Contribution
Family Net Worth @ age 85	$2,864,800	$2,994,808
Insurance Premium	$3,850/year	$0
Insurance	$700,000	$0
Charity	**$700,000**	**$0**
Taxes	$0	$282,348
Heirs	**$2,864,800**	**$2,717,460**
Net Social Benefit	**$3,564,800**	**$2,717,460**

Proper planning is the result of a coordinated effort between the family, their advisors and the charity the family wishes to support. As government allocates fewer dollars to the non-profit sector and taxpayer benefits for charitable giving improve, the donor's ability to pursue philanthropic objectives increases. As a generation of Canadians begins transferring $1 trillion in wealth to the next generation, they can build the foundation for a culture of philanthropy. Advisors - charitable, financial and legal alike - play a key role as facilitators in this process.