

YOU CAN LEAVE A BEQUEST WITH MINIMAL REDUCTION TO THE INHERITANCE FOR YOUR CHILDREN

Most parents dislike the idea of disinheriting their children and want to maximize the inheritance that they leave for the next generation. For those parents who are philanthropically inclined the biggest dilemma has always been how to leave a bequest to their favorite charities without disinheriting their children or dramatically reducing their inheritance.

The charitable donation tax credit system in Canada softens the blow to the bottom-line amount that you could leave your children and makes leaving a bequest much more feasible. As a matter of fact, for gifts over \$200, your donation tax credit can be almost half the size of your donation if you are in the top tax bracket. This can go a long way towards paying down your taxes, particularly on your estate which will likely receive a hefty tax bill.

Let's look at an example. Mrs Smith is a widow in her 70's and has accumulated \$450,000 in her RRIF which would be fully taxable as income upon her death. Her annual income is \$50,000. In addition to the RRIF she owns a house that is worth \$1,000,000. Mrs. Smith has been a supporter of her community hospital for years and has volunteered there for over 30 years. She would love to leave a bequest to her community hospital but is worried that if she does that, she will disinherit her three children.

If Mrs. Smith were to die without leaving any bequest to any charity this is what her children would inherit:

RRIF: \$450,000 - \$220,000 tax on death = \$230,000 after tax

Principal Residence: \$1,000,000

Net Estate: \$1,230,000

Net inheritance for each child: \$410,000

If Mrs. Smith were to leave a \$20,000 bequest to her community hospital in her will, this is what her children would inherit:

RRIF: \$450,000 - \$220,000 tax on death = \$230,000 after tax

Principal Residence: \$1,000,000

Charitable Bequest: \$20,000

Charitable Donation Tax Credit: \$8,000

Net Estate: \$1,218,000 (\$230,000 + \$1,000,000 - \$20,000 + 8,000)

Net inheritance for each child: \$406,000

If Mrs. Smith were to leave a \$100,000 bequest to her community hospital in her will, this is what her children would inherit:

RRIF: \$450,000 - \$220,000 tax on death = \$230,000 after tax

Principal Residence: \$1,000,000

Charitable Donation: \$100,000

Charitable Donation Tax Credit: \$40,000

Net Estate: \$1,170,000 (\$230,000 + \$1,000,000 - \$100,000 + 40,000)

Net inheritance for each child: \$390,000

If Mrs. Smith were to donate her entire RRIF and leave a \$450,000 bequest to her community hospital by naming the charity the beneficiary of her RRIF, this is what her children would inherit:

RRIF: \$450,000 - \$220,000 tax on death = \$230,000

Principal Residence: \$1,000,000

Charitable Donation: \$450,000

Charitable Donation Tax Credit: \$180,000

Net Estate: \$960,000 (\$230,000 + \$1,000,000 - \$400,000 + 160,000)

Net inheritance for each child: \$320,000

The bottom line is that a donation of \$20,000 would only reduce the inheritance that Mrs. Smith could leave for her children by \$4,000 (\$406,000 per child vs \$410,000 with no bequest) and a donation of \$450,000 would reduce the net inheritance for each child by \$90,000 (\$320,000 per child vs \$410,000 with no bequest). However, it would mean providing anywhere from \$20,000 to \$450,000 of funding for purchasing much needed equipment for the community hospital and creating a lasting legacy for Mrs. Smith.

The table below shows the net estate per child based on different bequest amounts. Please note that the numbers have been rounded and are based on 2022 Ontario tax rates.

Estate	No Bequest	\$20,000	\$50,000	\$100,000	\$450,000
		Bequest	Bequest	Bequest	Bequest
RRIF Before Tax	\$450,000.00	\$450,000.00	\$450,000.00	\$450,000.00	\$450,000.00
RRIF after Tax	\$230,000.00	\$230,000.00	\$230,000.00	\$230,000.00	\$230,000.00
Home	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00	\$1,000,000.00
Charitable Bequest	\$0.00	\$20,000.00	\$50,000.00	\$100,000.00	\$450,000.00
Total Tax Savings (Tax Credit)	\$0.00	\$8,000.00	\$20,000.00	\$40,000.00	\$180,000.00
Total Estate Net of Tax	\$1,230,000.00	\$1,218,000.00	\$1,200,000.00	\$1,170,000.00	\$960,000.00
Net Estate Per Child	\$410,000.00	406,000	400,000	\$390,000.00	\$320,000.00



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