



STRATEGY UPDATE

This Issue

- Building your legacy through Charitable Giving
- Paying RRIF Taxes with Charitable Life Insurance
- Pension Income-Splitting Proposals
- The Polson Bourbonniere Family



Building your legacy through Charitable Giving by Allan Kalin

Each year, millions of Canadians invest time and money back into their communities. In 2004 alone, according to Statistics Canada, more than 22 million Canadians donated nearly \$9 billion to charities and other non-profit organizations.

Thanks to Canada's income tax legislation, these charitable donations didn't just help the charity involved--they also provided the philanthropist with valuable tax credits. It is indeed, a win-win proposition!

Tax reduction is often a consideration for donors, and some charitable organizations have taken to referring to donations as a different way to put "social capital" to work, by investing in organizations the donor believes in, rather than paying taxes to a government that may well rate their own charitable priorities lower.

Planned giving involves more than just ticking off the box on a solicitation for the symphony or hospital foundation. More and more Canadians are looking to play a role in determining the direction the charity is moving. They want to be involved in the actual charitable process. They also want to create a philanthropic ethos within their family structure. Our generation is responsible for the well-being of the generation that follows. Our role is to nurture our children so that they can make our world a better place.

There are a number of ways to support a favourite charity. Among them are:

- Writing a cheque payable to the charity;
- Donating stocks, bonds or mutual funds that you already own;
- Leaving a sum of money to a charity in your will;
- Naming a charity as beneficiary on your life insurance policy;
- Establishing a charitable trust;
- Creating a Donor Advised Fund.

Donor Advised Funds work as follows: A donor sets up an account with a third-party foundation or charitable organization. This organization will invest the donated amount, issues a tax receipt, and then allows the donor to allocate or disburse income generated by the investments to the charities of their choice.

Here is a concrete example as to how we might go about setting up a Donor Advised Fund for a client:

Jack receives an annual income from his RRIF portfolio of \$90,000 per year, and another \$30,000 per year in rental income. He currently pays \$54,000 in income taxes. As well, Jack has an investment portfolio of mutual funds that have increased in value over time. Based on his present circumstances, no further income is required. However, should he redeem the funds, the capital gains triggered by the redemption would be followed by an even larger tax bill.

(continued on page 3)

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Paying RRIF Taxes with Charitable Life Insurance by Kirk Polson and Paul Bourbonniere



Here is a unique solution to the problem of the income taxes that arise from RRIFs on death. First a brief review of what happens with RRIFs when you pass away. If you are single, widowed, or divorced – that is, you have no surviving spouse – your RRIF is taxable in your estate on your death. Alternatively, if you are survived by a spouse and have named that spouse as the beneficiary or successor payee on your RRIF, tax is postponed until the surviving spouse dies.



Let's look at the example below in Illustration "A". Bob is predeceased by his wife, then dies a few years later with \$100,000 in his RRIF. The RRIF balance of \$100,000 is taxed as if he had earned it in the year of death so the federal government is his silent beneficiary – they get \$50,000 and Bob's 3 children share the remaining \$50,000.

ILLUSTRATION A - BOB

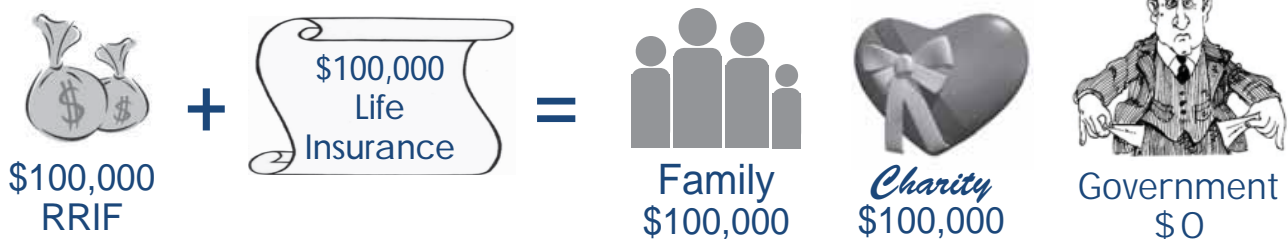


Bob's friend Frank who is also widowed, vows that the government will never be his silent beneficiary. Frank also has \$100,000 in his RRIF. He has 2 favourite charities that he volunteers his time to help on a regular basis. He learns from his financial advisor at Polson Bourbonniere that a donor can claim total donations of up to 100 per cent of net income in the year of his death.

How can Frank use this advice to the benefit of his children? Simply by arranging for his estate to make a charitable donation in the year of his death to offset the tax on his RRIF. The result – the government gets no tax and the charities get \$100,000. However, Frank's children don't benefit because \$100,000 of their inheritance has been paid out to the charities.

Frank's advisor at Polson Bourbonniere Financial recommends one additional step, our Donation Replacement Plan. While the charitable donation in the year of death eliminates the tax on his RRIF, and the charities benefit, Frank is in pretty good health and has excess income from RRIFs that he hasn't been using. Frank's advisor suggests that the excess RRIF income be used to pay for a life insurance policy on Frank's life to fund the charitable donation on his death. (Illustration "B").

ILLUSTRATION B - FRANK



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(continued from page 2)

How does the life insurance policy help Frank's children? Quite simply, when Frank dies the charities get \$100,000, Frank's two children share \$100,000, and the government gets nothing. Frank's family and the charities win. The charity gets the life insurance proceeds and Frank's estate is preserved for his children. Fair? Frank thinks so, his children think so, and the charities agree. Does the government care? No, because Frank has taken advantage of legislation designed to benefit charities by allowing larger credits on death than while living.

So, who do you want to be your beneficiaries? ☺

(continued from page 1)

The solution might be to create a Donor Advised Fund through a charitable foundation that would not only reduce his taxes, but give him the satisfaction of creating a philanthropic legacy.

Here's how it might work:

- The funds in question have a current market value of \$80,000.
- The adjusted cost base of these funds total \$30,000 giving a capital gain of \$50,000 if the funds were redeemed.
- Jack transfers the funds "in kind" to the Foundation.
- The Foundation issues a charitable gift receipt for the full \$80,000.
- The capital gain of \$50,000 is not reportable if the funds are transferred "in kind".
- The tax credit available for Jack is \$36,000, based on a 45% tax rate.

In this example, Jack will reduce his income tax bill from \$54,000 to \$18,000 and begin a philanthropic endeavour that will last long after Jack passes away.

This example is but one of many charitable giving strategies available to you and each one has its unique advantages. Depending on how the gift is structured, one may reduce the amount of annual income tax you pay, while another can help your estate offset capital gains taxes.

If you would like to learn more about how you can structure an effective gift, please don't hesitate to contact your Polson Bourbonniere Financial Planner for a review of the various gifting options. ☺

Pension Income-Splitting Proposals

On October 31st the federal government announced proposals to permit married and common-law couples to split their pension income effective this year. Subject to draft legislation this important new tax planning strategy will become available to you as you file your 2007 tax return in the spring of 2008.

You will be able to decide how to split your pension income with your spouse when you prepare your 2007 income tax return. If you have a higher income than your spouse you can allocate up to 50% of your eligible pension income to your partner. This will effectively reduce your income and raise your spouse's, attracting a lower rate of tax overall.

The various forms of pension income that will qualify for this tax break depending on your age are tied into the rules for the pension income credit:

- Under 65, eligible pension income includes annuity payments from a company's registered pension plan.
- Over 65, you can also split income from a registered retirement income fund (RRIF), or from an annuity from a registered retirement savings plan (RRSP).

Be sure to discuss pension income-splitting with your Polson Bourbonniere Certified Financial Planner at your review meeting this year. ☺

You & Us

PB Financial's People Page – featuring Clients and Staff

You – Deborah Colman



Deborah Colman is president of Colman & Company Inc., a leadership development company for leaders and teams. She holds the highest designation in the coaching profession of Master Certified Coach (MCC), and is an accomplished Team Coach and Workshop Leader. In 2004, the International Coach Federation recognized Colman & Company Inc. for Excellence in Leadership Coaching.

Deborah is committed to humanizing organizational cultures, with leaders at all levels seeing what's possible and excelling in intentional and purposeful leadership. In these uncertain times, leaders need to make a counter-intuitive move and loosen their tightly-held reins, in order to tap the full potential of their people; By listening, responding and acknowledging their unique talents, leaders will be able to re-build an engaged and responsive system.

As a Leadership Trainer, Deborah has traveled extensively in her work, and feels privileged to have worked in the diverse cultures of Israel, Spain, the UK, South Africa, Norway and Dubai. She has come to appreciate that there are universal truths that are simply packaged differently in each tradition, and that there is more that we have in common with each other than are different!

Besides her ongoing love affair with the human race, Deborah also loves to laugh, play, write and explore other cultures. She is enthusiastic about wilderness canoeing and has led wilderness canoe trips with the Federation of Ontario Naturalists.

Us – Viola Scola



It was a lucky day for Polson Bourbonniere when Viola Scola decided to accompany Allan Kalin when he joined us last spring! Acting as assistant to both Allan and Syd Robson, Viola has proven herself invaluable to both these planners.

When she joined Polson Bourbonniere, Viola brought with her ten years of industry experience, along with a positive and cheerful disposition that make her a delightful addition to the team.

Growing up in a small town in Cape Breton, when the time came to begin working Viola headed off to Toronto. Since then, though she loves to visit back east, she's put down roots and truly made this her home.

Viola is a busy lady with an active family and community life. Summer days are spent at the baseball diamond with husband Paul, cheering on 15-year old daughter, Sara. Evenings and weekends mean volunteering at the local church, and leading Sunday school classes. A steady stream of teenage friends, a pampered pooch, shi-poo Luke, and the family bird, mean the house is always bustling!

Despite her busy life, Viola manages to make some time for her favourite creative outlet, scrapbooking – creating lasting mementos of good times with family and friends.

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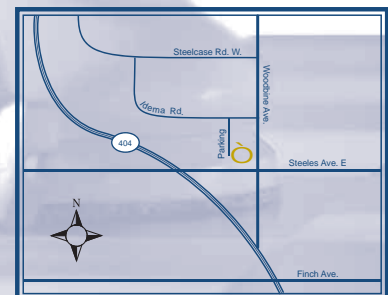
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