Charitable Opportunity for the Business Owner

By Ted Polci, CLU, TEP

While reviewing my own affairs, it occurred to me that I may have missed an opportunity myself which we have helped several clients to take advantage of.

My wife and I have decided to donate a percentage of our estate to our fund at Aqueduct Foundation. We assumed that the donation would be cash – out of life insurance proceeds – and would offset tax on capital gains and other income (RRSP's, etc.) realized in our estates.

In my work, I have assisted several of our family business owner clients to donate private shares of their companies to charity on death and then use corporate owned life insurance to redeem those shares. The estate then passes those private company shares along to the children as per the succession plan.

Because the life insurance is held in the company, the premiums are paid with corporate dollars. However, the donation is made by the deceased individual and therefore the gift creates a tax credit against personal income tax of the deceased donor.

The private company redeems the shares from the charity using life insurance proceeds but because the charity is not a taxable entity, it is not necessary to use the capital dividend account for the redemption. So, the beneficiaries of the estate end up with all the shares back in the family <u>and</u> a capital dividend account roughly equal to the value of the life insurance intended for the redemption. Plus, of course, the charity benefits with the cash realized from the redemption of the shares.

So, getting back to my situation – and perhaps other clients' – why not simply instruct my executor to donate shares of my private company (instead of cash) and use corporate owned life insurance to redeem them ? There needs to be some additional planning done, but the result is well worth it. There is a variation on this strategy that will work with private foundations as well.