Deferred Gift Planning Through a Bequest

There are many people within the church who have experienced the joy of giving back to the Lord a portion of that which they've been blessed. They do this not out of pride, nor out of duty, nor out of a desire for personal recognition; they do it for the love of Christ in their heart, and to acknowledge for themselves that everything they have is a gift from God. What better way to thank Him then by using a portion of the gifts He has given, for the mission and ministry of His church! What joy to know that your gift assisted in bringing someone into heaven! And yet, there are those who desire to do more. After a life-time of faithful stewardship to the church, by way of a bequest, they choose to also remember the church in their will.

A bequest to the church is exceptional for a number of reasons. When coupled with a "statement of faith" as part of a person's "last will and testament", a bequest to the church is further witness to the faith of the individual. It's also an opportunity to continue to support a specific ministry of the church, for which you've had a passion, by creating a legacy for future generations. Your bequest can be used to create a lasting endowment that others may also contribute to over time, or you can simply add your bequest to an existing endowment. Endowments are usually a collection of funds that are carefully invested, such that the annual earnings are used to fund the ministries of the church. Some endowments carry on into perpetuity, while others have a limited time span, wherein after a set time period, a portion of the original gift is also used for funding the ministry. The minimum time frame for an endowment is 10 years. One must be careful when stipulating where the endowment is to be spent, so as to allow some freedom for re-directing the funds should that be required due to changing programs or priorities.

In Luke 12:48 God's Word says, "From everyone who has been given much, much will be demanded;..." Although endowments are typically established from bequests, for those that have the means, they are also established from gifts given during a person's lifetime. There is nothing that brings more joy than actually seeing or reading about how your gift has provided for a favourite ministry. For most of us though, the opportunity to give a substantial gift may not happen until we die, wherein our estate is able to facilitate such a gift. This does not reduce our responsibility to our family, as God's Word clearly says in 1Timothy 5:8, "If anyone does not provide for his relatives, and especially for his immediate family, he has denied the faith and is worse than an unbeliever." So together, these verses encourage us to consider our estate as an opportunity to not only provide for our heirs, but also for the ministry of the church. The government also encourages this by way of providing incentives for charitable giving, through various tax reduction strategies. If these strategies are used appropriately, even a significant gift can often have minimal impact on the portion of the estate which remains for family.

For many people, the largest reported income in their entire life will be on the tax return submitted on their behalf after they have died. Specifically, all your assets on the day prior to your death are considered to be converted to their current market value, and are treated according to Revenue Canada guidelines for your final tax return. Given this, and other rules based on the type of asset being considered, even with a modest house, some investments, and/or a pension, many estates would be sufficiently large enough to "qualify" for the average Canadian, highest marginal tax rate on earned income, of 45%. This means that the assets comprising your estate will be taxed from 0-45%, dependant on the type of asset considered. Not all assets are taxed the same way, nor is the same asset taxed the same amount based on certain conditions, including such variables as: - single or joint ownership, marital status, and capital gains or losses. These variables can be used to strategically minimise the taxable portion of your estate. Additionally, when contemplating a major gift or the establishment of an endowment, strategically, you should consider which asset will cost your estate the highest amount of tax. By donating either a portion or the entire asset, you create a charitable donation tax credit, which offsets the tax otherwise incurred if the asset remained as part of the estate. Not only that, but it may also assist in offsetting tax incurred by other assets.

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How an Endowment Works

Let's assume that an individual has a desire to establish an endowment, wherein the investment earnings over the next ten years would be used to fund a ministry of their choice. Based on a $100,000 endowment, with 5% of the annual investment earnings being used, $5,000 would be contributed to your desired ministry each year. After ten years, if $5000 were also withdrawn annually from the principal and added to the interest generated that year, this one gift would last for 30 years, and total close to $200,000 in support of a ministry of your choice. Even the legal minimum endowment of $25,000, if endowed in the same manner, would contribute about $50,000 to the ministry of your choice. What a legacy! What a blessing!

Effect of a Charitable Gift on the Value of an Estate

As was stated above, it's suggested that the most strategic way to develop a larger gift for endowment purposes, is to donate from the asset subject to the highest amount of income tax. If an estate in inherited by a spouse, an RRSP can be transferred into a spousal plan with no income tax charges. On the other hand, if the estate is being left to heirs other than a spouse because the deceased person is a widow or widower, Revenue Canada will tax the full value of the RRSP, usually at the highest marginal tax rate of 45%. It is under these conditions that donating from the RRSP would be the most strategic option.

To see the effect on an estate, the following examples are provided. Each table uses the same three assets, and considers three different amounts being given to charity. Table 2 and 3 also show the difference in the estate value from that shown in Table 1 (with no gift); as well as showing the total worth of an endowment created by the gift.

Table 1 - Based on an estate with 3 primary assets, this table shows the estate value (after tax), with no gift.

Asset	Present Value	Charity	Probate Cost	Income Tax	Estate $$$
Home	$600,000	$0	$8,400	$0	$591,600
RRSP	$100,000	$0	$1,400	$45,000	$53,600
Life Ins.	$100,000	$0	$1,400	$0	$98,600
Total	$800,000	$0	$11,200	$45,000	**$743,800**

Total amount retained within the estate = $743,800

Table 2 - This table shows the difference to the estate, with a $50,000 gift.

Asset	Present Value	Charity	Probate Cost	Income Tax	Estate $$$
Home	$600,000	$0	$8,400	$0	$591,600
RRSP	$100,000	$50,000	$700	$22,500	$26,800
Life Ins.	$100,000	$0	$1,400	$0	$98,600
Total	$800,000	$50,000	$10,500	$22,500	**$717,000**
	Portion of Endowment from Estate (only 3.35%)				**$26,800**
	Total Value of the Endowment over 30 years				**$98,700**

Total amount retained within the estate = $717,000

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Table 3 - This table shows the difference to the estate, with a $100,000 gift.

Asset	Present Value	Charity	Probate Cost	Income Tax	Estate $$$
Home	$600,000	$0	$8,400	$0	$591,600
RRSP	$100,000	$100,000	$0	$0	$0
Life Ins.	$100,000	$0	$1,400	$0	$98,600
Total	$800,000	$100,000	$9,800	$0	**$690,200**
	Portion of Endowment from Estate (only 6.7 %)				**$53,600**
	Total Value of the Endowment over 30 years				**$197,500**

Total amount retained within the estate = $690,200

Summary

As you can see from the examples in Table 2 and 3, the reduction in tax that otherwise would have had to be paid to Canada Revenue offsets 45% of the donation made from the RRSP. Effectively, only 55% of the donated amount is actually given from the estate. (This percentage will fluctuate based on the province in which you live.) To further compound the benefit of this type of major gift, investing the funds in an endowment for a period of ten years, almost doubles the gift value once again. Specifically, under this scenario, the ministry of your choice receives 3.68 times the amount that you donated from the estate.

For those who do not have an RRSP, there may be other options available that provide similar results. If you are considering a gift, share this desire with your financial advisor and ask what options may be available to facilitate such a gift. Other options include insurance policies, charitable remainder trusts, charitable remainder annuities, gifts of land or property, etc. It is recommended that you speak to your professional financial advisor prior to taking any action with respect the above information, as your investment portfolio and/or the province in which you live, may impact the accuracy of this information.

Conclusion

As Christians, we are asked to prayerfully consider God's gifts of time, talent, and treasure. I suggest that people think of these gifts in very different ways. Even though we sometimes say things like "my time is precious" or "you've wasted my time", we know in our hearts that God has blessed us with each and every day that we have on earth. Just look in any newspaper to read about the many individuals whose lives have been prematurely ended by accident or sickness. As well, when we consider how talented we may be in one area, but have no skills in another, we can acknowledge in our hearts that our "talents" are a gift from God. Most would agree that our "time" and "talent" is only marginally impacted by our own effort. This is not as transparent to us when we consider our treasures. After all, our estate is the accumulation of a life-time of hard work, education, personal sacrifice, and prudent financial planning. We've struggled, scrimped and saved in order to be financially successful. You can see how all this seems like "our doing", as opposed to "God's doing", or our gain, as opposed to God's gift. As Christian stewards, we need to acknowledge in our hearts, not only our heads, that our treasures are also a gift from God. With that comes the desire to thank God for all that we've been blessed, not ignoring our God-given responsibility to care for family, but in doing so, remembering that we are also part of God's family. May the Lord bless you as you consider, as you consider how you might leave a legacy.

If you would like any of the above information clarified, desire more information regarding other gifting options or a specific endowment, please speak with a Gift Coordinator from Lutheran Foundation Canada. You may also visit Lutheran Foundation Canada's web site, at www.lutheranfoundation.ca or call 1-866-588-4422.

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