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Tax Efficient Charitable Giving

Many people would like to give a large sum of money to charity but are unwilling or cannot afford to give up the income generated by the donated asset. For some, a prescribed annuity is a possible solution to this concern. In a prescribed annuity, the taxable portion is spread evenly over the lifetime of the contract. In a regular annuity, taxable income is greater in the early years and declines over time.

Scenario

Consider the case of Steve, a sixty-five year old male with \$100,000 in guaranteed investment certificates. They generate \$5,500 a year in income for Steve and he pays 40% tax on this. He is left with \$3,300 to spend, and nothing to give to his favorite charity.

Solution

If Steve bought a prescribed annuity he would receive \$3,800 a year in income. Because the prescribed annuity pays a combination of principal and interest, the tax would be only \$500 thus leaving him with the same \$3,300 of after-tax income to spend each year.

Here is where the annuity provides the advantage. In order to generate this \$3,300 of after tax income, Steve needs to purchase

an annuity for \$49,000. The balance of Steve's \$100,000 can now be donated to his favorite charity. This will generate a tax credit of almost \$15,000, which Steve can use to offset income tax now and in the future.

There are many ways to incorporate charitable giving into your personalized financial security plan. If you would like more information on how to incorporate the charities of your choice into your financial security plan, please e-mail info@capital-wealth.ca or call us at 905-682-5789.

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