

The Unintended Beneficiary

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So your Will has been completed and you're now one of the 50% or so of Canadians who have that in place. You are to be congratulated!

Are you sure you have included all the beneficiaries? You've included the kids, maybe the grandchildren, and perhaps even a friend or two. How about the Canadian government? Did you include them as a beneficiary? Probably not – at least not intentionally.

The Canadian tax system makes sure that a portion of your wealth, whether you intended it or not, is going to be used for the good of this country. It's called "*Social Capital*". The term has been used for several decades now and loosely means "your personal investment in the community". In Canada, if you've earned an income or accumulated any assets, by default, through taxes owed on your final personal tax return, you will end up giving a portion of the earnings and growth on those assets to the government for its use. So if you do nothing, the government makes themselves a beneficiary of your Will! And this can apply to almost everyone in this country, not just the wealthy.

But there is something that you can do to change that. The social capital reality can't be removed, but you do have a choice about how you relinquish this portion of your estate. You either plan for it, a **voluntary** tactic, or you make no plan and it becomes **involuntarily**. Either way you are making a personal investment in the community. Some professionals call this use of social capital, "strategic philanthropy".

Involuntary Strategic Philanthropists: by default, most Canadians fit into this category - they have done nothing to give themselves a social capital choice. If you are an involuntary strategic philanthropist, once the government has your share of income tax or capital gains, you have absolutely no say how it is spent. It could fund initiatives that are totally against your morals or beliefs and once the government has your money it's too late for your input. You get no personal satisfaction or fulfillment from this scenario.

Voluntary Strategic Philanthropists: these folks have decided how they want their social capital to be used. As a voluntary strategic philanthropist, you will have made plans to donate capital to charities and ministries that carry out the work you like to support. You may have donated time and money to them throughout your lifetime and now through your Estate Plan you can support them even more generously. There is personal fulfillment and the satisfaction of knowing you have implemented effective and efficient strategies.

It might be helpful to look at an example. Mark and Sue have recently completed their new Will and have chosen to divide their estate between their three children. They have the following assets that, if they were to die today, would comprise their estate:

	Asset Value
Their home	\$ 450,000 (bought for \$150,000)
RRSP's – his and hers	\$ 450,000
Their additional property	\$ 350,000 (bought for \$40,000)
Savings accounts	\$ 25,000
Life insurance policies	\$ 150,000

Total Assets:	\$ 1,425,000
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Now let's determine what their tax bill (social capital) might be on these assets at their death:

	Asset Value	Potential Tax Liability
Their home	\$ 450,000	\$ 0
RRSP's	\$ 450,000	\$ 207,000
Property	\$ 350,000	\$ 71,300
Saving Accounts	\$ 25,000	\$ 0
Life Insurance policies	\$ 150,000	\$ 0
Totals:	\$ 1,425,000	\$ 278,300

Using today's asset values then, Mark and Sue's estate would generate a tax bill of \$278,300. Another way to look at this is that Mark and Sue have a **social capital responsibility of \$278,300!**

If, by default, Mark and Sue become *Involuntary strategic philanthropists*, the government receives \$278,300 of social capital and the opportunity to direct that capital is lost. But if Mark Sue decide to become *Voluntary strategic philanthropists*, they can make a donation to a charity or charities of their choice essentially eliminating the tax liability. So the "personal investment in the community" is intentional and their children not only receive a significant financial inheritance but a spiritual one as well. The government receives \$0.

The bottom line is that, upon our death, a portion of our lifetime accumulated assets will be reinvested somewhere. As Christians, we understand that God owns it all and we are His stewards. Would He not want some say in this scenario?