Charitable Giving Using Life Insurance Products

Canadians are known worldwide as compassionate people, who give generously to charities and humanitarian organizations. In fact, federal and provincial budgets contain tax incentives to encourage charitable giving by Canadians, both personally and through businesses. Given that there are thousands of registered charities in Canada, there has never been a better time for private and corporate citizens to include large gifts as part of their tax, financial, and estate plans.

There are three simple ways of gift-giving that provide significant tax advantages.

Present gift of a life insurance policy

To donate an insurance policy on your life, you name the charity as beneficiary and owner. If an existing policy is donated, you will receive a donation tax receipt for the fair market value (FMV) and any accumulated dividends or interest, less any outstanding policy loans. Please be aware that the fair market value of an older policy may exceed your adjusted cost basis (which is the total net premiums paid less the cost of insurance coverage while the policy has been in force). If so, you are entitled to a donation receipt for the fair market value but must report the policy gain as income. You will also get contribution receipts in future years for any premiums you pay to keep the policy going. You can leverage a modest, current gift into a large future sum.

The life insurance proceeds are paid on death directly to the charity. Since the policy is owned by the charity, and the charity is the beneficiary, the proceeds pass outside of your estate. Therefore, probate taxes will not apply to the gift. This also facilitates keeping the gift private and a faster payment to the charity.

Deferred gift of a life insurance policy

To accomplish this, you would name the charity as the beneficiary of your life insurance policy but retain ownership and continue to pay the premiums yourself. In this case, the death benefit would be paid outside your estate and would not be subject to probate taxes. There is no current tax relief for premiums paid but you will be eligible for a charitable donation tax credit (upon death) on the proceeds distributed to the charity which may be used on your final income tax return. The amount of the donation on the deceased's final income tax return would equal the amount of the death benefit on the policy paid by the insurance company. Please note, however, that the exemption allowed would be limited by the taxable income amount on the deceased's final income tax return. Excess charitable amounts can be applied to the previous year.

The charitable insured annuity

If your financial plan includes charitable giving, the charitable insured annuity may be ideal for you. This is an income and donation strategy whereby you purchase an annuity to create an income stream for life and secure a life insurance policy. You donate the life insurance to a charitable organization that becomes the owner and beneficiary of the insurance. You donate a portion of the annuity income to the charity to pay the life insurance premiums (and any tax). In this case, any premiums paid by the individual qualify for a donation tax credit, effectively increasing your income through the tax savings by your marginal tax rate (actual credit will vary by province). There is a benefit of income and tax savings during your lifetime and a benefit of the insurance proceeds to the charity when you pass away.

The benefits of charitable giving:

- You will achieve the peace of mind knowing your gift will make a difference
- You will also receive the tax benefits
- In the case of a charitable gift annuity, you will often receive greater payments than the interest you would receive from a fixed income investment

519-622-6550 / info@cambridgefoodbank.org / 54 Ainslie Street South, Cambridge, ON N1R 3K3

cambridgefoodbank.org