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## 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 nearly 86,000\* 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 plan.

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 cash surrender value and any accumulated dividends or interest, less any outstanding policy loans. Please be aware that the cash 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 cash value, but must report the 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 on the gift. This also facilitates keeping the gift private and a faster payment to the charity.

If you become unable to pay the policy's premiums, the charity can reduce the death benefit so the policy remains in force but no more payments are due.



**RBC Wealth Management**

## DEFERRED GIFT OF A LIFE INSURANCE POLICY

To accomplish this you would name the charity as 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.

## CHARITABLE GIFT ANNUITIES

A charitable gift annuity enables you to give a lump sum to a charity and receive guaranteed periodic income in return, usually monthly. The older you are when the agreement is made the higher your income. Charities make arrangements to buy the annuities from insurance companies. The amount retained by the charity is determined by you, the donor. The charity then uses the balance to purchase the annuity.

Charitable gift annuities are irrevocable, which means you give up the control of your money. With a directly issued "single life" annuity, the charity invests the initial amount and provides you with the payments for life. Couples can buy "joint and last survivor" annuities that make payments until both die.

You will receive a tax receipt for the amount by which your gift exceeds the total cost of purchasing the annuity.

## CONSIDER THE FOLLOWING COMPARATIVE EXAMPLE:

### FACTS:

- A donor makes a \$100,000 contribution to a charitable organization
- The donor's life expectancy is 8 years (assume the donor lives 8 years).
- The donor is to be provided annuity payments of \$10,000 per year (\$80,000)
- The cost of an annuity that will provide \$80,000 over 8 years is \$50,000<sup>†</sup>

### TAX TREATMENT

- The donor receives a tax receipt for \$50,000 for the year of donation
- The charity receives immediate use of the excess \$50,000 donation
- The donor receives in total \$80,000 in annuity payments, of which \$30,000 will be included in income over 8 years

## 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

## ANOTHER ALTERNATIVE

The RBC Dominion Securities Charitable Gift Program is designed as a convenient alternative to establishing a private foundation that is both cost effective and tax efficient.

*Choosing how to create your legacy is a very personal decision, but we're here to help make it easier. If you are looking for a way to create an enduring legacy, while enjoying important tax benefits, charitable giving through the use of life insurance products may be a good choice for you. To learn more, contact*

\* CRA January 2012.

† Note: the cost of the annuity is shown for illustration purposes only and is not calculated based on the rates effective on the date of publication.

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