

## **Life Insurance and Charitable Giving:**

### **Another Way to Support Your Favourite Charity**

#### ***It is a fact.***

Canadians are passionate about supporting causes that matter to them. The latest report from Statistics Canada indicates that 94% of Canadians, aged 15 or over, gave goods or food, or made a financial donation in 2010. The same study also reports that as Canadians get older, they give more. On average, people between ages 55 – 64 give \$52 per month and those age 75 and over give \$60 per month. But what if we can find a way to convert this average annual gift to \$35,000 for your favourite charity? The answer is life insurance.

#### ***How does it work?***

There are three main ways in which a donor can gift life insurance to a charity:

- 1) Bequest of a life insurance policy through his or her will
- 2) Donate a policy during his or her lifetime
- 3) Name charity as beneficiary of the policy

#### ***Bequests of Life Insurance through a Will***

The donor owns the policy during his or her lifetime and the estate is the beneficiary of the policy proceeds. The donor's will indicates the amount of the life insurance proceeds that will be donated to the charity. The charity receives a lump sum of money from his or her estate upon the donor's passing. The donor will not receive tax credits for the premiums paid, but new rules for deaths occurring after January 1<sup>st</sup>, 2016 will allow certain estates ("Graduated Rate Estates") to allocate the donation on either of the following:

- a) The taxation year in which the donation is made, or any of the subsequent five taxation years.
- b) The last two taxation years of the deceased donor, to a maximum of 100% of net income.

The biggest advantage of this type of bequest is the donor retains full control over the policy until his or her passing. A perceived disadvantage of this approach is the life insurance proceeds may be subject to probate fees, creditor claims and estate litigation. Probate fees in BC are applicable to estate values over \$25,000 at a rate of 0.60% up to \$50,000 and 1.40% of any amount exceeding this threshold.

#### ***Donation of a Life Insurance Policy While Still Living***

This approach consists in transferring ownership of an already existing Life Insurance Policy to a charity and naming the charity as the beneficiary at the same time, while the donor will remain

as the life insured. The following discussion would also apply to a brand new policy purchased by the charity on the life of the donor and for which the donor will make premium payments.

The premiums paid by the donor will be considered a charitable donation—making them eligible for a charitable tax credit. The donor may also be entitled to charitable tax credits if the existing policy being transferred has accumulated cash values, these credits will reduce the impact of potential deemed taxable gains upon the transfer of the policy. No tax credits will be available upon the donor's passing for the life insurance proceeds received by the charity. The policy proceeds will not be part of the donor's estate.

### ***Naming the Charity as Beneficiary of a Life Insurance Policy***

The donor will not qualify for charitable donation tax credits for premiums paid during his or her lifetime. However, the donor may claim these tax credits on his or her final tax return for the life insurance proceeds paid to the charity. These tax credits may be carried back one year and be used against 100% of the donor's net income.

This alternative provides flexibility to the donor in the event that he or she no longer wishes to support the named charity. It also allows the death benefit to bypass the estate, resulting in savings while keeping these proceeds out of any creditors' claims (in most cases).

### ***Interested in learning more?***

Integral Wealth Securities Limited, formerly Patrick Sullivan & Associates, has helped numerous donors support their favourite cause on Vancouver Island since 1977. Integral also assists NALT by handling our investment accounts and advising us on investments pro bono. For more information, please contact the Integral office. Phone: 250-753-1124. Email: [andre.sullivan@integralwealth.com](mailto:andre.sullivan@integralwealth.com) or [daniel.martinez@integralwealth.com](mailto:daniel.martinez@integralwealth.com)