# Charitable Life Insurance

There are many different types of charitable gifts, each with its own advantages and tax implications. It is important to review and understand the basic features of each gift so that you may choose the option that best suits your needs and financial circumstances.

One such gift is life insurance. If you're interested in making a large donation at a relatively small cost, donating a life insurance policy to charity may be an option for you to consider. The donation of life insurance offers many advantages that are not available with other gifting options. A life insurance policy typically avoids or reduces estate taxes, and you can structure your gift to decide when you will receive the tax credits.

Here are three ways you can donate a life insurance policy to a charity:

1. Name the charity as the beneficiary of an existing policy. This is a good option if you already have a policy that your family no longer needs for financial stability. At the time of your death, the charity will receive the policy proceeds and your estate will receive the tax benefits.

2. Take out a new policy in the name of the charitable organization. You'll receive a charitable tax receipt for any premiums you pay, and the charity receives the death benefit.

3. Transfer ownership of an existing policy to the charity and receive a charitable tax receipt for the cash value of the policy. If you owe annual premiums on the policy, you'll still pay them, but you'll also receive tax receipts in the amount of your payments.

## Let's look at an example of a planning opportunity:

A client owns shares in a small-business corporation and wishes to gift the shares to his children by will and reduce or eliminate capital gains taxes on the growth at death. When he passes away, the taxable capital gains reportable on the deemed disposition are $500,000 and tax owing on this amount is $267,650 (53.53%). This assumes his taxable capital gain will be subject to the top marginal rate, and that the proposed capital gains changes from the 2024 Federal Budget will not apply in the year of death. To address the tax liability, he takes out a life insurance policy for $500,000 payable to his estate. He includes a provision in his will to donate the life insurance proceeds to the charity and a clause directing his Executor to make any election under the act to reduce taxes.

The payment to the charity will be considered a donation in the year of death and the tax receipt issued by the charity will qualify for a tax credit. The result is that the tax liability on the shares is significantly reduced or eliminated by the tax credit. Since ownership of the policy stays with the life insured, premiums paid during the life of the policy on death do not themselves qualify for the charitable tax credit. Yet they are, typically, a small price to pay when compared to the estate preservation achieved.

The above strategy ensures that the amount of life insurance proceeds gifted to the charity will qualify for a tax receipt. It also allows the donor to maintain control of the policy since the donor remains its owner. It should be emphasized that it would require less life insurance to simply pay the taxes owing at death as compared to using the proceeds for charitable donation to eliminate the tax liability. Also, by making the estate the payee, the policy proceeds are subject to probate fees, as well as to claims of creditors of the estate.

## Let’s look at an example of a planning opportunity.

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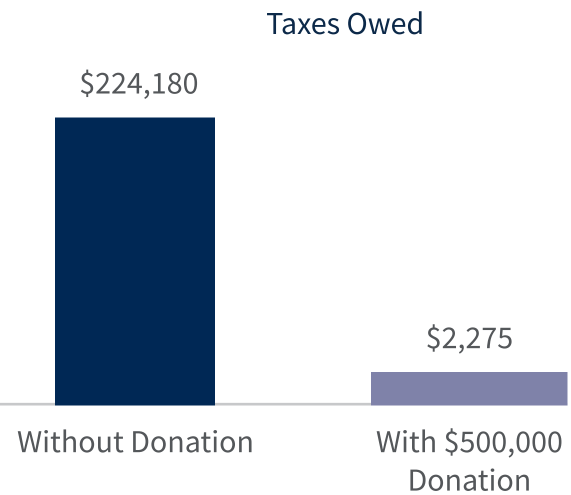
|---|---|
| Where do you live? | Ontario |
| Net income | $500,000 |
| Charitable donation amount | $500,000 |
| Type of donation | Year of death |




| | Without Dontation | With Donation |
|---|---|---|
| Net Income | $ 500,000 | $ 500,000 |
| Income Tax before Donation Tax Credit | $ 224,180 | $ 212,898 |
| Donation Tax Credit | | $ 210,623 |
| Taxes Owed | $ 224,180 | $ 2,275 |
| | | |
| Charity Receives | | $ 500,000 |
| Donation Tax Credit and Ontario Surtax Reduction | | $ 221,905 |
| **After-Tax Cost of Donation** | | **$278,095** |

At the federal level your non-refundable tax credit will be 15 per cent of the first $200 of donation, to the extent that an individual has income subject to tax at the highest tax bracket at 33 per cent federally, the donation tax credit rate is 33 per cent, and 29 per cent for other donations. All provinces have similar credits, ranging from four per cent to 20 per cent. The maximum donation credit you can claim is 75 per cent of your net income for the year.  Up to 100% of a taxpayer’s net income can be claimed as donations in the year of death and the year preceding death, for purposes of calculating the charitable donations tax credit (CDTC).

In summary, by incorporating charitable giving into a comprehensive estate plan, your assets can benefit causes you care about. In turn, this can fulfill your philanthropic objectives while still being personally rewarding. Ensuring your intentions are satisfied requires more than just writing a cheque to your favorite cause. With proper planning, your generosity can go further with an impact beyond your expectations.

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