

Isabela Zabava



Using Life Insurance to Make a Major Gift on a Shoestring Budget

Not many of us think of ourselves as potential philanthropists. Although we would like to make a difference, we simply don't believe our resources are sufficient to meet our financial responsibilities to family *and* have money left over for our favourite charity.

Structuring a charitable gift using life insurance can help. As part of estate planning, life insurance can be used to make a large gift to a favourite charity for a relatively small cost to the donor and, at the same time, realize tax benefits. There are several ways to give life insurance. Deciding which method is best will be dependent on the donor's circumstances and his or her needs.

1. Transferring ownership of a paid-up policy to the charity

This type of gift would be most suited for individuals who purchased life insurance policies many years ago, to provide family protection when their family was young, or perhaps to back a loan taken to start a new business. In the intervening years, the life insurance policy has been paid off. Now that the children have grown up and the loan has been repaid, the life insurance policy is an idle asset.

Transferring ownership of a paid-up policy to a donor's favourite charity will result in an immediate tax

receipt to the donor for the cash surrender value of the policy at the time it is transferred to the charity. The donor can use the tax receipt to offset up to 75 percent of his or her income from any source in the year when the policy is given to the charity. Any excess tax credit can be carried forward for five years.

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2. Transferring ownership of an existing policy with premiums still owing, or purchasing a new policy that names the charity as owner and beneficiary

This type of gift appeals to people who are 30 to 60 years old, who would like to make a large gift but do not have a large amount of capital available. It can also appeal to donors who have some capital available but would like to leverage it for the benefit of their favourite charity, and maximize their tax savings.

To effect this type of gift, the donor establishes a life insurance policy on his or her life, and designates a favourite charity as the owner and beneficiary of the policy. The charity will ultimately receive the proceeds of the life insurance policy. The donor pays the premiums but they represent only a fraction of the insurance policy proceeds payable to the charity.

In the case of an existing policy with premiums still payable, the donor is entitled to an immediate tax receipt for the cash surrender value of the policy, as well as a tax receipt for each premium paid. In the case of a new policy that designates the charity as owner and beneficiary, the donor is entitled to a tax receipt for the amount of the insurance policy premiums paid. The donor can then use the tax credit to offset taxes payable on up to 75 percent of his or her income. It must be noted that, in the latter case, the charity can only issue a tax receipt for policies that irrevocably designate the charity as both the owner and beneficiary. If the policy only designates the charity as the beneficiary, a tax receipt cannot be issued because the donor can change the beneficiary at any time.

This type of life insurance gift can also appeal to donors who may have

some capital available but would like to make a much larger gift. In such a case, the donor can choose to establish a new policy naming the charity as owner and beneficiary and to pay up the policy. In that instance, the donor is entitled to a tax receipt for the sum used to pay up the policy.

If the capital that the donor would like to use to pay up the policy is in the form of appreciated publicly traded securities, the donor can also realize capital gains tax savings. The donor would receive a tax receipt for the market value of the securities at the time of the gift. In addition, the donor would only have to pay taxes on 25 percent of the capital gain deemed to have been realized when the securities were transferred. As a result, the tax credit would more than offset the capital gains taxes payable, and any excess tax credit can be used by the donor to offset up to 75 percent of his or her income from other sources.

3. Wealth Replacement: Make an outright gift to the charity; use the tax savings to pay premiums for a life insurance policy that provides proceeds to the donor's family

Sometimes, although donors may have capital assets available, they may hesitate to make a major gift to their favourite charity because they do not wish to diminish the assets that will ultimately go to their children or other loved ones. Such donors may be interested in a gift arrangement whereby they make a large gift to the charity from their capital, and use the resulting tax savings to pay the premiums on a life insurance policy on their life that will pay the proceeds to their family members. Depending on the age and state of health of the donor, it may be possible that the tax saving entirely covers the cost of the premiums payable on the life insurance.

Making a planned gift using life insurance is a versatile vehicle for

addressing a donor's needs to provide for his or her family, as well as making a gift for a favourite charity. It can be used by donors who have available capital or by donors who have disposable income but insufficient available capital. For more information on the use of life insurance for making a charitable gift, the donor can contact the planned giving professional at his or her favourite charity. Of course, a donor should seek the advice of an estate and financial advisor before making the gift. ▲

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