

Bailey Jung



# Charitable Planned Giving: Gift Planning Strategies Using Life Insurance and Annuities

Canadians are a generous and caring bunch—from dropping spare change into cash boxes found at store cash registers to donating large sums to charitable organizations and foundations. Each year Canadians volunteer thousands of hours and give generously to worthy causes. Even those with modest means make generous financial donations to their favourite charities.

Charitable planned giving has in recent years become an integral part of estate planning. Charitable donations can be made in many different ways. Some are simple, such as a cash donation, while some can be quite complex to set up, as in the case of an endowment or foundation. Charitable planned giving is a decision that should be carefully considered. Your present and future financial needs, the financial needs of your loved ones, your tax situation, and your philanthropic goals and objectives all need to be considered.

Two particular strategies that are relatively simple to implement and that offer the potential for significant tax benefits are the use of life insurance and annuities.

The issue of tax always arises when making charitable decisions. Taxes can play a significant role in the type and timing of your donation. Although taxes shouldn't be the primary reason for making a charitable gift, the related tax benefits are something all donors will want to take advantage of. The amount of tax saved by making a charitable donation is a non-refundable tax credit, which reduces your total tax bill, dollar for dollar.

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Unlike some of the more complex planned giving options such as foundations, endowments, or complicated trust structures, planned giving through the use of insurance or annuities is easy to implement and usually does not require lawyers or tax specialists.

#### **Charitable Planned Giving using Life Insurance**

A gift using life insurance allows the donor to make a sizable gift at a relatively low

cost. It has become a common and popular option due to the following factors.

- The amount of the gift may be larger than you might otherwise afford.
- The death benefit from an insurance policy can be structured to avoid the probate process.
- Since the gift can be kept outside of a Will, it provides the donor with some privacy that wouldn't be available if the gift were made through a Will.
- The donor may be entitled to an immediate tax benefit, depending on the ownership and beneficiary designations.
- The gift is difficult to challenge.

Depending on the donor's specific objectives and whether or not the donor wants an immediate or deferred tax benefit, a life insurance policy can be structured in several ways. The most common methods are discussed below.

#### **1. Maintain ownership of the policy but designate the charity as beneficiary.**

The charity is named as the beneficiary of

the policy. When the donor dies, the death benefit is paid directly to the charity. This option will avoid the probate process and provide confidentiality to the parties involved. Another advantage is that this method will be difficult to challenge by family members who are unhappy with the gift. Last, this strategy allows the donor to change the beneficiary designation, if for some reason the donor changes his mind and decides to name a different policy beneficiary.

The disadvantage of this option is that the donor does not receive an immediate charitable tax receipt. When the proceeds of the policy are received, however, the charity will issue a tax receipt, which the estate can use to offset any taxes payable on the final return.

## **2. Name the charity as both owner and beneficiary of the policy.**

If a donor has an existing policy he no longer requires, rather than cancelling it, he could gift the policy to the charity while he is still alive. With this strategy, the donor assigns the life insurance policy—transfer the legal ownership—to the charity and makes the charity the beneficiary of the policy. The donor will receive a tax receipt equal to the cash surrender value of the policy at the time of the assignment. If the donor continues to make the premium payments on the policy to keep it in force after it has been assigned, the donor will also receive a tax receipt for each premium payment made.

One disadvantage of this strategy is that it is irrevocable. In other words, there is no opportunity for the donor to change his mind once the charity has been named owner and beneficiary of the policy.

## **3. Name the estate the beneficiary on the insurance policy and bequest a similar amount to a charity through the Will.**

This option involves naming the donor's estate as the beneficiary of a life insurance policy, then making a specific bequest in his Will to donate the proceeds to a charity. The advantage with this option is that the donor maintains control until his death because he can

always change the beneficiary of the policy and the bequest in his Will. The estate will receive a tax receipt it can use to offset some of the income taxes payable on the final tax return. The drawback with this option is that the estate will have to pay probate fees on the amount that goes through the estate. Also, if privacy is a concern, this may not be the best option since the probate process is open to the public.

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## **Charitable Gift Planning using an Annuity**

A charitable gift annuity allows a donor to make a gift to a charity while, at the same time, receive a guaranteed, predetermined income for life from that gift. This option is especially suitable for someone who wants to make a gift and wants the peace of mind that he or she will not outlive the income. In a nutshell a charitable gift annuity is a simple contract between the donor and the charity in which the donor exchanges cash or securities for a fixed income for life. Here's typically what happens when a donor implements this strategy.

1. The donor gives a lump sum of money to his favourite charity.
2. The charity receives a portion of the sum immediately: usually between 25 and 35 percent.
3. The balance is used to purchase an annuity.
4. From this annuity, the donor receives a regular payment for life.

The amount of the guaranteed income is based on complex actuarial calculations that take into account the value of the gift, the recipient's age,

interest rates at the time of purchase, and life expectancy. The income received by the donor can provide an attractive after-tax income since Canada Customs and Revenue Agency (CCRA) will treat a portion of the payment as a return of capital. The donor would also be entitled to a charitable credit for a portion of the funds originally donated.

The use of this strategy is an excellent option given the right situation.

- The charity gets to benefit from the gift right away while the donor is still alive.
- The donor will receive a charitable donation receipt that can be used to offset income taxes and the donor will have a guaranteed fixed income for life.

The drawbacks to this option are:

- the donor will give up control of the original capital; and
- there is no opportunity to undo an annuity contract.

## **Conclusion**

No one option is the best solution for everyone. Because every donor's situation is unique, it is important to carefully review options with a professional advisor. Used correctly, life insurance and annuities are an excellent way to make a meaningful contribution to a worthy cause. ▲

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**Bailey Jung is an Investment Advisor with RBC Dominion Securities in Vancouver.**

Voice : 604 665-0673  
Fax: 604 266-1147  
bailey.jung@rbc.com