# TESTAMENTARY GIVING OPTIONS (OTHER THAN A WILL)

While a charitable bequest in your Will is an easy and very effective way to make a legacy gift to your favourite charity, there are other options when comes to making a deferred donation. This article will explore two of them: life insurance and retirement plans.

<u>LIFE INSURANCE</u>

Life insurance provides a donor with the opportunity to achieve significant upfront or deferred tax benefits while creating a powerful future gift for the charity.

**DECISIONS, DECISIONS**

Life insurance provides an enduring way to leave a lasting legacy to your favourite charity. While the charity typically receives the Death Benefit from the policy upon the death of the donor, there are two fundamental choices when it comes to receiving a tax benefit when donating life insurance.

The ***first*** choice creates an immediate opportunity for tax relief during the donor's lifetime; the ***second*** option defers the tax relief, benefiting his or her estate at death.

**Upfront Tax Relief**

By assigning permanent ownership of a life policy to the charity, the donor can receive an immediate tax receipt for the fair market value of the policy, along with tax receipts for any subsequent premium payments. At the death of the donor, the full death benefit is paid to the charity (with no additional tax benefit to the estate of the donor).

*SAMPLE CASE STUDY –*

*ROBERT (BOB) ANDREWS*

Bob Andrews, 50-year-old father of two teenage boys and successful veterinarian, decides to make a large, deferred contribution to his favourite charity. After careful consultation with his wife and their Financial Advisor, he makes the decision to donate his existing whole life policy to the DogsRBest Foundation. The policy has a current fair market value of $250,000 (as determined by an independent actuarial calculation) and a death benefit of $500,000. Bob assigns full ownership of the policy to the charity and receives an immediate tax receipt for the fair market value ($250,000). He also receives ongoing tax receipts for any future premiums paid on the policy. The tax credit from the donation generates immediate tax savings for Bob.

At his death at the age of 85, the policy pays the death benefit of $500,000 directly to the Foundation.

**Deferred Tax Benefit**

In the second option, the donor names the Charity as beneficiary of the policy but doesn't assign ownership (and thus leaves the door open for donors to change their mind). No tax receipts are issued during the donor's lifetime for the fair market value of the policy or any future premium payments, but on the death of the donor, he or she will receive a tax receipt for the full death benefit of the policy. This strategy can provide significant tax savings at death

*SAMPLE CASE STUDY –*

*GLORIA HUBBLE*

Gloria Hubble, renowned heiress of the Portobello Bakeries empire, decides to name The Kids Can Bake Foundation as beneficiary of her life insurance policy. Gloria decides to not assign ownership of the policy to the Foundation so doesn't receive any tax benefit at the time of her decision or during her lifetime. However, on her death at age 83, the policy pays the death benefit of $500,000 to the Foundation which can then begin creating scholarships for future bakers. Her estate receives a tax receipt for the full death benefit of the policy.

## Summary of Benefits – Example Policy

## Whole Life Insurance Policy

Death Benefit - $500,000

Current Fair Market Value (FMV) - $250,000

Annual Premiums - $5,000

| | **Immediate Tax Benefit** | **Lifetime Tax Benefit** | **Estate Tax Benefits** | **Funding of Charity** |
|---|---|---|---|---|
| *Treatment #1 – Assigning Ownership* | Donation tax receipt for FMV of $250,000 | Annual donation tax receipts of $5,000 when premium paid | None | Foundation receives $500,000 upon death of donor* |
| *Treatment #2 –* | None | None | Estate receives donation tax receipt for $500,000 | Foundation receives $500,000 upon death of donor |

SPIRE PHILANTHROPY

*No Assignment*
*of Ownership*

**Foundation, as owner, reserves right to cash policy. Cash value may be less than FMV*

RETIREMENT PLANS

It is extremely easy to name a charity as a beneficiary of your retirement plan. Simply contact your plan administrator and ask them how to name (or change) a beneficiary of your registered plan (such as an RRSP or RRIF). In most cases, it is also possible to name a charity as a beneficiary of a portion of your plan or as a contingent beneficiary (who would receive the proceeds in the event that the named beneficiary(ies) predeceases you). *Note that the rules differ in Quebec so it is important to contact your plan administrator for details*.

When an RRIF and RRSP is cashed in (either at death or during one's lifetime), the fair market value of the withdrawal is immediately taken into income. Of course, whatever portion of your plan that you choose to donate is also eligible for a donation receipt and the significant tax benefits that result from charitable donations.

*SAMPLE CASE STUDY –*

*CARL MACDOUGALL*

Carl MacDougall is a 78-year-old retired investment specialist. He is interested in making a sizeable donation to support the local hospital foundation. He has accumulated a significant registered plan (now a RRIF) with a value of approximately $560,000. Carl has decided to donate one-half of his RRIF to the Foundation. Let's take a look at the tax implications of such a gift assuming the RRIF is worth $500,000 at the time of Carl's death with a tax rate of 45%.

| | Tax Payable (@ 45%) | Tax Savings (@ 45%) on Charitable Gift |
|---|---|---|
| Portion of RRIF NOT Donated ($250,000) | $112,500 | $0 |
| Portion of RRIF Donated ($250,000) | $112,500 | $112,500 |
| TOTAL | $225,000 | $112,500 |

In the end, Carl's total tax bill after accounting for the RRIF income and the charitable donation is $112,500 ($225,000 - $112,500). This dramatic tax reduction is coupled with the fact that Carl has left a substantial legacy gift of $250,000 to his favourite charity.

TAX INCENTIVES FOR TESTAMENTARY DONATIONS:

As a result of changes to the Income Tax Act over the years, testamentary donations (typically through wills, insurance policies or retirement plans) have the power to assist in dramatically reducing taxes payable during one’s lifetime or upon death. Consulting legal and tax advisors is absolutely essential when considering making this type of donation.