

Gifts of Life Insurance

Life insurance can be an excellent planned giving tool for a donor who wishes to make a substantial gift to charity. Moderate premiums are spread over time resulting in a large gift at the time of death. New or existing life insurance policies may be donated. Preferably, some variety of permanent life insurance is used to fund gifts of this type.

FEATURES OF CHARITABLE LIFE INSURANCE

- > They are simple to set up and manage.
- > If the donor is in good health, the policy can be a very cost-effective method of providing a gift.
- > The value of the gift made via the policy will not be subject to probate fees or claims by creditors of the estate.

LIFE INSURANCE GIFT



Christian Stewardship Services can help!

There are many opportunities surrounding gifts of life insurance which may have varying tax implications. Potential donors should consider consulting the staff at Christian Stewardship Services or their own life insurance professional before proceeding.

“Benefits Now” or “Benefits Postponed”

The 2000 Federal Budget included enhancements to the tax treatment of gifts made using life insurance, making it a more effective gifting tool for donors. In 2008 Canada Revenue Agency updated the valuation guidelines. Donors have two options:

Gifts of Life Insurance...continued

A. Benefits Now (you receive tax credits for premiums paid)

Where a donor names a charity as both the owner and beneficiary of a new or existing life insurance policy, an irrevocable gift is made – resulting in charitable tax receipts for any future premiums paid and/or for the cash value built up in an existing policy. The charity receives the policy proceeds upon the death of the donor. No receipt is issued to the estate for the final proceeds. A donor might choose to structure a life insurance gift in this manner if he/she has higher annual taxable income and can benefit from receipts immediately or annually, or does not anticipate a large tax bill for their estate.

EXAMPLE:

Mr. Jones is a generous supporter of a charity. He wishes to leave all his assets to his children but still wants his support for the charity to continue after his death. He purchases a new \$100,000 life insurance policy and names the charity as both the owner and beneficiary of the policy. He will receive a donation receipt for all the premiums he will pay, or if paid up, he receives a receipt for fair market value. Upon Mr. Jones' death, the charity receives the \$100,000. His estate will not receive a donation receipt at his death.

B. Benefits Postponed (your estate receives tax credits)

When a donor names a charity as only the beneficiary of a new or existing policy, the gift is revocable – and no immediate tax receipts are issued. On the death of the donor, the charity receives the proceeds from the policy and issues a receipt to the donor's estate. The resulting tax credits may offset taxable income in the year of death. Additional savings in probate fees are realized because the gift passes outside of the estate. A donor might choose to structure a life insurance gift in this manner if he/she faces high tax liability in their estate, due to RRIF/RRSP or capital gains income.

EXAMPLE:

Mr. Brown is a generous supporter of a charity. He purchases a new \$100,000 life insurance policy and names the charity as the beneficiary of the policy, and retains ownership of it. Mr. Brown has modest annual income but will incur a large amount of capital gains income from several investments when he dies. Upon Mr. Brown's death, the charity receives the \$100,000 to establish a scholarship in his wife's name. The charity issues a tax receipt to be used by the estate to offset income in the year of death.

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