CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Planned Giving Using Life Insurance

Phil and Alice have been long-time supporters of a local charity. They have volunteered many hours over the years and have made regular contributions to their favourite cause. Their family shares their feelings.

The couple has heard about the charity's long term goal of setting up an endowment fund that can ease the pressure on annual fundraising drives and permit the organization to plan for some large capital projects. Phil and Alice are intrigued by the idea of leaving something substantial for the charity on their passing without committing a large portion of their existing estate.

Leaving a legacy to benefit a favourite cause continues to be a topic of interest to aging individuals. A number of charities and charitable foundations view endowments as an important aspect of fundraising and long term planning. For many years, life insurance has been used as a cost effective way to leave a legacy for the benefit of a charity. This isn't a strategy just for the rich. A donor of modest means can leave a significant final bequest for comparatively little. The ultimate gift that the charity receives may be many times more than the amount that a donor may plan on otherwise leaving in a will.

2016, Issue 12

Peter A. Wouters, Director, Tax Retirement & Estate Planning Services, Wealth

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

Peter can be reached at peter.wouters@empire.ca

Empire Life Investments

Case in Point

What are some options?

Bequest to a charity through a Will or as a named beneficiary

Phil and/or Alice owns a life insurance policy and either names his/her estate as beneficiary or names the charity as beneficiary.

If the estate is the beneficiary, then the will would specify that the proceeds or a specific amount would be paid to the charity. The charity would issue a tax receipt for the total proceeds it received. The allocation of any resulting tax credit will depend on whether the estate qualifies as a graduated rate estate. This setup may offer some planning options for the donor.

If the charity is named as beneficiary, then on the death of the life insured, the charity receives the proceeds directly. This alternative may afford the donor more privacy since it doesn't go through the will and may avoid claims from creditors as well as probate fees on the proceeds.

Naming a charity as the owner of a new life insurance policy

Phil and Alice may apply for a new life insurance policy on his/her life and immediately assign the policy to the charity once it is issued. The charity would own the policy and be the beneficiary. Phil and Alice could donate money to pay the premiums to the charity which in turn would pay the insurance company. Alternatively, they could pay the premiums to the life insurance company directly. In either case, the charity will issue tax receipts for the premiums paid to fund the policy.

Donating an existing policy to a charity

Phil and Alice may have an older life insurance policy that is no longer needed for its original purpose. The couple may donate that policy to a charity which becomes the new owner and beneficiary. The charity will issue a tax receipt for the value of that policy. Under current income tax rules, the value is the total cash surrender value minus any policy loans. If the policy is not fully paid up, Phil and Alice may receive ongoing tax receipts for the premiums paid to keep the policy in force.

When an existing policy is transferred absolutely to a charity, then the excess of the cash surrender value of the policy over the adjusted cost basis will be taxable to the donor. The tax receipt should more than cover off the income tax owed since the receipt will be for the value of the policy.

Whichever approach the couple chooses, the ultimate benefit received by the charity will be far more than the dollars needed to fund the charitable bequest.

The couple needs to consider the relative advantages of getting a tax receipt:

- for the premiums paid,
- for the value of the policy at the time it is transferred, or
- for the sum insured that the charity receives on his or her death.

Their financial advisor, in consultation with their accountant, can explore the best alternative for them.

11/16-EN

Empire Life Investments®