Gifts of Life Insurance

Life insurance is the one asset almost everyone has. For the young parent with limited dollars, it is a way to protect the family against economic loss in the event of a parent's premature death. For the business owner, it may provide dollars to buy out a deceased partner's interest or compensate for the loss of a key manager. For older individuals, it provides the liquidity needed to settle an estate and pay taxes.

Life insurance has another important use: it is a popular and practical way to make a significant gift to charity. A gift to a community foundation will be wisely administered through their investment program which will result in a stable source of income to the foundation for years to come.

NOTE TO READER:

The purpose of this publication is to provide general information, not to render legal advice. In addition any changes in the tax structure may affect the examples listed in this information. Your client should consult their own lawyer or other professional advisor about the applicability of this information to their situation.

Acceptable Assets:

- Any *whole life* policy (participating or universal)
- Many *term* policies (personal)
- Many *group insurance* policies (personal)

Benefits to the Community Foundation:

- Immediate access to existing cash value, when policy ownership vests with foundation
- Assurance of death proceeds if policy is owned by the foundation and is retained (Term and group insurance policies are often not retained as donors get older)
- Effective tool for building long-term endowment
- Under February 2004 Budget provisions, policy proceeds exempt from disbursement quota if endowed

Benefits to the Donor:

- Donation receipt for cash value and any future premiums paid on transfer of policy ownership
- Small current outlay leveraged into larger future gift
- If policy ownership rights retained during lifetime, no donation receipt for premiums paid, but donation receipt to estate for full value of death proceeds
- Satisfaction of providing a future gift while retaining full control of policy (in cases where donor retains ownership rights of the policy)

Community Foundations of Canada
Fondations communautaires du Canada

Most Appropriate For:

- Persons (generally ages 30-60) who
  - have an older policy no longer needed, or
  - want to make a large gift but have limited resources
- Persons (any age) whose personal needs and family situation may be subject to change
- Professionals with good cash flow, but limited capital assets.

Common Questions & Answers:

Q: What are the ways to give life insurance?

A: A donor can retain ownership of the policy and designate the community foundation to receive all or a fraction of the death proceeds, or the ownership of the policy can be transferred to the foundation by the donor, relinquishing all of the associated rights.

Q: How does a client make the death proceeds payable to the community foundation?

A: The simplest – and the preferred – way would be to name the foundation as the beneficiary of the policy. The foundation would then receive the proceeds at the death of your client. Another way would be to make the estate the beneficiary of the proceeds and add a bequest in the Will providing an equivalent amount for the foundation. The disadvantage of this alternative is that the proceeds would be subject to probate.

While neither method yields any tax credit during a donor's lifetime, they both enable the estate to claim a credit on the final tax return after the donor's death.

For example, ***Mohammed M*** *makes the $50,000 proceeds of his policy payable to the local community foundation. When he dies, his estate will receive a donation receipt for $50,000, which may result in a substantial tax credit on his final return.*

Q: Can a life insurance gift reduce current income taxes?

A: Yes, if a donor transfers ownership of the policy to the foundation. A donation receipt will be issued for the cash value of the policy, which is creditable on the donor's current year's return. If the donation receipt exceeds 75 percent of current net income, the excess may be carried forward up to five years. If premiums are still owing and the donor continues to pay them, donation receipts will be issued for those payments as well.

William N. *gives a paid-up policy with a $100,000 face value and a $40,000 cash value. His donation receipt is for $40,000, which results in tax credit of $18,000 (assuming a combined tax credit of 45 percent).*

Q: What if your client doesn't have an old policy to give?

A: A donor can take out a new policy in the name of the foundation and spread the payments over a period of years. At the donor's death, the foundation will receive the full face amount of the policy. Meanwhile, donation receipts will be issued for the premiums paid, thus reducing the actual cost of the gift.

David R*, age 45, makes his gift through a $50,000 "five-year-pay" policy. For five years he pays annual premiums of $1,962. Assuming a combined tax credit of 45 percent, he realizes a tax saving of $883 each year, reducing his out-of-pocket annual cost to $1,079. Thus, for a net cost of only $5,395 (5 x $1,079), David provides his local community foundation with a future gift of $50,000.*

Q: Are there other ways to use insurance in charitable giving?

A: An insurance policy is a good way to provide "wealth replacement" when your client donates an asset they might otherwise wish to leave to their heirs.

At age 60, ***Eva D*** *contributes $100,000 to the community foundation and realizes tax savings of $45,000 over the period she claims the donation receipt. She uses $22,000 of the tax savings to purchase a paid up $100,000 policy. At her death it will go to her children, replacing the amount she gave to charity. Meanwhile, she still saves $23,000 in taxes through her gift.*