

K. Gifts Of Life Insurance, Annuities, RRSPs And RRIFs

Life Insurance

Life insurance offers a host of possibilities for making a gift with significant value. Its appeal lies in its affordability for those with little cash savings to make large cash gifts-but it can also be attractive for the elderly donor who is prepared to forego a lump sum to see it returned as a death benefit. There are several options.

- ◆ Life insurance is **owned** by the Community Foundation. A donor purchases a policy and then immediately donates it to the Foundation, which designates itself as beneficiary. The donor will receive acknowledgment from the Foundation as soon as the policy is purchased and assigned. The donor continues to pay the premiums and receives a charitable receipt for each premium payment.
- ◆ A donor can give an **existing policy** to the Community Foundation, in which case he or she received a tax receipt for the cash surrender value of the policy.
- ◆ **Paid up insurance policies** may also be given to the Community Foundation during the lifetime of the donor, but care must be taken, in the case of an absolute assignment, to check whether this might trigger personal tax problems.
- ◆ Life insurance can also be **owned by the donor**. In this case, the donor does not receive a tax credit for the premiums; instead, he or she receives a credit for the death benefit left to the charity in his or her Will. The charitable donation (to a limit of 100% of income in the year of death and the year preceding death - see Section I: *Gifts Made Through Wills*) - will reduce taxes otherwise payable at death, such as capital gains arising from deemed disposition. A tax efficient way of structuring this type gift is to designate the estate as beneficiary and then give the proceeds to the Foundation as a bequest.
- ◆ Donors frequently combine a **non-charitable annuity with a life insurance purchase**. The annuity payments are, in part, used to fund a Community Foundation-owned life insurance policy, with the result that the charitable receipt for the annual premiums reduces the taxable component of the annuity. Those in the life insurance field maintain that the use of this technique produces a higher annual income for the donor than simply investing the capital in a term deposit, paying tax on the interest, and leaving the capital to charity by Will. A close comparison should be made with the charitable remainder trust (See Section I: *Gifts Made Through An Inter Vivos Trust*).



RRSPs and RRIFs

In the March, 2000 Federal Budget the charitable donations tax credit was extended to include the proceeds from Life Insurance Policies, RRSPs and RRIFs where a charity is designated as the beneficiary.

Previously, the tax credit was available only if the proceeds were left to the donor's estate, which would then make a cash bequest to the deceased donor's designated charity, pay income tax on the proceeds of a RRSP or RRIF (although not on the proceeds of life insurance policies), and claim the charitable tax credit for the cash bequest. This option continues, but under the new rules, donors have another alternative:

- Ø To designate that the proceeds of his/her RRSP, RRIF or life insurance policy be paid directly to a charity (or charities) upon death, and
- Ø The estate pay income tax on RRSP and RRIF proceeds, but
- Ø The tax payable is offset by the amount of the charitable donation tax credit.

Technical Reference

IT-244R3 Gifts by individuals of life insurance policies as charitable donations
IT-111R Annuities purchased from charitable organizations
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