SOS CHILDREN'S VILLAGES CANADA

SOS Children's Villages Canada
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Do you have a fixed dollar amount put aside for charity in your will? Or are you planning to leave something to charity in your estate? If so, would it not be nice to be able to amplify that donation and get a tax benefit while you are alive? Using life insurance as a tool to enhance your charitable gift may be a solution.

Charitable Giving with Insurance

A flexible tax-smart way to make charitable gifts

The gift of life insurance can be effective in providing a practical and affordable way to make sizable charitable gifts to favourite charities or private foundations. Not only will life insurance help increase the size of the gift, in most cases will provide significant tax benefits.

Utilizing Insurance Solutions for Charitable Giving

There are several ways to structure an insurance solution to create a charitable legacy, three of which are:

- Making a bequest of the proceeds of a life insurance policy through his or her will
- Naming the charity as beneficiary under a policy owned by the donor
- Naming the charity as beneficiary under a policy owned by the charity, for which the donor pays the insurance premiums

1. **Funding a Bequest through a will:**

- Donor owns an insurance policy and names his/her estate as beneficiary
- Donor makes bequest in will in favor of charity
- Tax benefit received in year of death

Pros	Cons
• Provides lump sum on death to charity by payment of premiums. • Allows flexibility; Donor can change mind and designate a different beneficiary. • Tax credit in year of death, 100% of net income, with one year carry back.	• No current tax credit available. • Tax credit on death may not be totally utilized. • Subject to creditor claims, probate fees, and estate litigation, since the insurance passes through estate • Confidentiality may not be protected.

Example: Mr. and Mrs Akintola currently own an insurance policy with a $1 million death benefit. They have named their estate as the beneficiary of this death benefit upon their passing. In their will, the Akintola's have multiple beneficiaries including $500,000 going to their favourite charities. Once they pass, $1 million will be added to the overall estate and the charity will get their $500,000 and the estate of the Akintola's will receive a tax credit for the donated amount which will help offset any other taxes the estate owes (i.e. RRSP collapse, capital gains etc.). What is interesting

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is that two years ago, the Akintola's adjusted their will to add a second charity as a beneficiary which speaks to the flexibility of the strategy.

2. Donor Owned Policy
    - Donor owns the policy and names the charity as beneficiary
    - Donor pays premiums
    - Tax benefit received in year of death

Pros	Cons
• Provides lump sum on death to charity by payment of premiums. • Gift not subject to creditor claims or probate fees. • Donor has flexibility to change beneficiary. • Tax credit in year of death, 100% of net income, with one year carry back.	• Premiums paid do not generate current tax credits. • Tax credit on death may not be totally utilized.

Naming one or more charities the beneficiary of a life insurance policy, but not the owner, provides a future gift, future tax savings, and planning flexibility.
The donor simply names one or more charity as the beneficiary on a policy he or she owns. The policy may already be in existence and has outlived its original purpose, or it may be new.

Since the donor retains ownership, when the death benefit is paid, the full amount is eligible for a tax receipt that can be claimed on the final two lifetime returns. This gift is a "direct designation" of insurance proceeds, which means the death benefit produces the same tax savings as a gift by will, but the amount is exempt from provincial "probate" fees.

Charitable beneficiaries can be changed easily, and, like a bequest by will, there is no obligation to inform selected charities that they are beneficiaries, which ensures privacy in planning. In addition, continued personal ownership of the policy can mean you still have access to cash in the policy, should you need to withdraw it.

Example: Mr. and Mrs. Silva (aged 58) have $100,000 set aside to give to charity upon their passing. After speaking with their advisor, they decided to take that $100,000 and purchase an insurance policy with it. Since the funds were earmarked for charity and because they have ample assets to live on, they felt this strategy was right for them to make a large impact.

For illustration purposes, let us assume they purchase a Universal Life policy with premiums costing $10,000 per year for 10 years. Upon their passing, they would have put in $100,000 in premiums the death benefit would be $280,000. This amount would go to the charity and the estate would receive a tax credit in that amount. If they went with the original plan, they would only receive a tax credit of $100,000 vs. a tax credit of $280,000.

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3. Charity owned policy
   - Charity owns insurance policy and is the beneficiary
   - Donor pays the premiums
   - Tax benefit received annually

Pros	Cons
• Premiums paid will generate current tax credits. • Lump sum on death to charity • Charity has certainty of receipt of death benefit • Ease of arrangement • Gift not subject to creditor claims, probate fees, or state litigation.	• Donor has no rights under policy • If donor defaults, charity may have to pay premiums, allow policy to lapse speaking or take cash surrender value.

Example: Mr. and Mrs. Silva (aged 58) have $100,000 set aside to give to charity upon their passing. After speaking with their advisor, they decided to take that $100,000 and purchase an insurance policy with it. Since the funds were earmarked for charity and because they have ample assets to live on, they felt this strategy was right for them to make a large impact. In this case, they are donating the policy to the charity.

For illustration purposes, let us assume they purchase a Universal Life policy with premiums costing $10,000 per year for 10 years. This $10,000 per year would be used a tax credit every year. Upon their passing, they would have put in $100,000 in premiums the death benefit would be $280,000. This amount would go to the charity. However, because they have already received their tax credits for the $10,000 premiums, no further credits would be available. This ideal for people who want take advantage of tax credits while they are alive.

As you can see, charitable giving through insurance can have many benefits.

- Reduce your tax exposure
  - Your estate will benefit from the increased tax credit thereby leaving more to the people you love
  - Alternatively, you can take advantage of the tax savings now by choosing option 3.
- The amplified gift will help even more vulnerable children making an even bigger impact than originally intended

To explore your options using insurance for charitable giving, please speak to your financial advisor.

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