| Benefaction Charitable Public Foundation

Donor advised funds, endowment funds, gift planning, planned giving, donating gifts of securties

Gifts of Life Insurance

Nicola · Monday, November 7th, 2011

Life insurance products are useful for gift planning because they are given special tax treatment

Existing life insurance policy (ownership transferred to charity)

This is an attractive option for people who have an older policy that is no longer needed or for those who want to make a large gift but have limited resources. The benefits are (1) that the donor receives a tax receipt for the fair market value of the policy at the time of the donation, and for any future premiums paid; (2) for a relatively small sum, they can ensure a large future gift for their favorite charity; (3) If premiums are still required, then all future premiums paid by the donor are eligible for a tax receipt; AND (4) the death benefit will bypass the estate thus avoiding probate and legal challenges for the donor.

Purchasing a new policy and transferring ownership and beneficiary

This method, it is not the policy that is gifted, but the premium. All premiums paid will qualify for a tax receipt. In this case, the death benefit is not considered for tax receipt purposes, only the premiums.

Making a bequest of life insurance proceeds to pass to the charity through the donor's will

This method is useful for donors looking to reduce taxes on their estate and does not mind probate fees. "A bequest donor can claim charitable donations up to a maximum of 100% of his or her income in the year of death and the previous year (to the extent that there is excess contribution room). With insurance, the death benefit is not taxable. Therefore, by naming the estate as beneficiary of the policy, the insured can inject a large sum of tax-free cash to pay off legal bills, taxes, or even to make charitable gifts… The insurance death benefit merely provides the means to make the payment."

Making a charity the beneficiary of an existing policy

This method is commonly used by people who might be inclined to give, but whose personal and family needs may be subject to change would hesitate to transfer ownership of a policy to a charity. The benefits to the donor in naming a charity a beneficiary but not owner to their life policy are: (1) they are able to make a future gift to their charity; (2) they retain access to the cash value; and (3) they maintain control over the gift as they are able to change the beneficiary in case family circumstances change. The donor names the charity as beneficiary, and upon his or her death, the insurance proceeds are paid to the charity, and the tax receipt is issued to the deceased.

Split ownership

This arrangement is usually based on a Universal Life Policy where the donor and charity co-own the contract. It is structured on a 'Face plus Fund' basis where the level of death benefit is donated after the policy is acquired by the donor. The donor retains partial ownership rights in the equity portion of the policy (Accumulation Fund) and in its corresponding death benefit.

Split benefit

A twist on the above arrangement occurs when a donor buys a UL policy and donates to charity. The contract for a split benefit gift would stipulate that the charity owns the policy and 50% of death benefit is payable to the donor's estate/heirs. During their lifetime, the donor pays the ongoing premiums and benefits from the tax receipt issued by the charity for 50% of those premiums (eligible amount). At death, the charity receives the death benefit and by contract pays 50% to the donor's estate/family.

Donation of Segregated Funds

Donations of segregated funds from a living Donor to Benefaction may be eligible for enhanced capital gains treatment. Such donated segregated funds are deemed to have been disposed of by the donor immediately before donation to trigger a gain or loss for the owner. The Income Tax Act provides a taxable capital gains inclusion rate of 0% for gains on segregated funds donated in-kind. The donation receipt would be equivalent to the value of the units (net asset value per unit as determined by the issuer) multiplied by the number of units donated less any advantage.

This entry was posted on Monday, November 7th, 2011 at 8:02 am and is filed under Advisors Corner, Gift Planning Education, Nov 2011
You can follow any responses to this entry through the Comments (RSS) feed. You can leave a response, or trackback from your own site.