

USING LIFE INSURANCE

There are two options available for obtaining tax credits for donations of life insurance policies. An annual tax credit can be claimed for the insurance premiums paid on a life insurance policy, the benefits of which are to be paid to a registered charity or a credit can be claimed for the proceeds of the life insurance policy paid to a charity. This credit is available in the year of death of the person insured.

1. Tax Receipt During Lifetime:

In order for the donor to obtain a donation receipt for premiums paid on a life insurance policy, the life insurance policy must be owned by the charity. The donor would be the person insured under the policy and the charity would be the named beneficiary. As the charity does not have an insurable interest in the donor, consent must be obtained from the donor for the charity to own the policy.

There are two options for the payment of the premiums on the life insurance policy. The donor can make the premium payments directly to the insurance company, and provide the charity with the payment receipt, or the donor can give the money to the charity, and the charity can make the premium payment to the insurance company. In either case, a donation receipt will be issued to the donor for the amount of the premium payment.

This strategy would be used in a case where the donor wished to offset annual taxable income with a charitable donation tax credit.

2. Tax Receipt on the Death of the Person Insured:

A life insurance policy would be taken out on the life of the donor with either the donor's estate or the charity named as the beneficiary of the policy. The donor is the owner of the policy.

If the estate is the named beneficiary, then the will must direct the proceeds of the insurance policy be paid to the charity as a donation. When the gift of insurance proceeds is made under the donor's will, the insurance proceeds pass through the estate of the donor. The funds may be subject to probate fees and creditor claims as well as estate litigation. The confidentiality of the donation may not be protected if the donation is done through the estate.

For deaths after 1998, a donation credit is given to the individual immediately before death for direct beneficiary designations made to the charity. The donor retains control over the policy and has the flexibility to change the policy or beneficiary designation at any time.

Life insurance policies with the donation credit claimed for the proceeds paid to the charity would be used in situations where the donor is expected to realize capital gains on deemed dispositions at death with the resulting taxes to be paid.

The information provided above is just one of the many ways you can provide a significant gift to your favourite charity. Please talk with a professional advisor to see what options are best for you.