INCREASING YOUR SUPPORT OF YOUR FAVORITE CHARITY

To be clear, to enjoy the tax benefits of this strategy, the charity named as owner/beneficiary must be a registered charitable organization.

The Concept

A common planned giving strategy is for an individual to own a life insurance policy with themselves as the life insured, and on death make a donation to a charity from the insurance proceeds (usually by a bequest created in a will). The charity issues a donation receipt for the amount of the donation which can be used in the donor's final tax return.

Another more direct strategy is to name a charitable organization as the beneficiary of the life insurance policy in which the donor is the owner and the life insured. This way the organization receives the death benefit directly, paid at once in cash that generally is not affected by claims against the estate. There is also no shrinkage due to taxes or probate and administration fees because the life insurance death benefit does not go to the estate, but directly to the charitable organization. The charity issues a donation receipt for the amount of the donation and it can be used in the donor's final tax return.

An alternative to donating a lump sum upon death is to donate a new or existing life insurance policy to a charitable organization and claim a tax credit for the donation of subsequent premiums. No donation credit is available when the life insured dies because the charity owns the policy.

Giving a New Policy

If the life insurance policy is a new policy purchased for charitable giving purposes, usually the donor applies for the policy and is the initial policy owner (to facilitate the administrative process). When the policy is issued, the donor requests a change of ownership in favor of the charitable organization.

An alternative, less used approach, is for the policy to be issued with the charity as owner and beneficiary. This eliminates the need for transfer of ownership. However, depending on the provincial jurisdiction, the charitable organization may be restricted under its investment powers to apply for a life insurance policy directly, since the organization may not have an insurable interest in the life insured.

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To have a deeper conversation about how this subject will affect your business, please contact:

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