

GIFTS OF LIFE INSURANCE

Life insurance is the one asset almost everyone has. For the young parent with limited dollars, it is a way to protect the family against economic loss in the event of a parent's premature death. For the business owner, it may provide dollars to buy out a deceased partner's interest or compensate for the loss of a key manager. For older individuals, it provides the liquidity needed to settle an estate and pay taxes.

Life insurance has another important use: it is a popular and practical way to make a significant gift to charity. Your gift to (*Charity*) will be wisely administered through our investment program which will result in a stable source of income to (*Full Name of Charity*) for years to come.

Q: What are the ways to give life insurance?

A: You can retain ownership of the policy and designate (*Full Name of Charity*) to receive all or a fraction of the death proceeds, or you can transfer ownership of the policy to (*Charity*) by relinquishing all of your rights.

Q: How do I make the death proceeds payable to (*Charity*)?

A: The simplest – and the preferred – way would be to name (*Charity*) as the beneficiary of the policy. (*Charity*) would then receive the proceeds at the time of death. Another way would be to name your estate as beneficiary of the policy and then make a bequest to your will providing an irrevocable trust for (*Full Name of Charity*). The advantage of this alternative is that the proceeds would be subject to estate tax.

Whether you choose to make a tax credit during your lifetime, they both enable your estate to claim a credit for the final tax return after your death.

For example, Everett J makes the \$50,000 proceeds of his policy payable to (**Full Name of Charity**). When he dies, his estate will receive a donation receipt for \$50,000, which may result in a substantial tax credit on his final return.

Q: Can a life insurance gift reduce my current income taxes?

A: Yes, if you transfer ownership of the policy to (*Full Name of Charity*). You will receive a donation receipt for the cash value of the policy which is creditable on your current year's return. If your donation receipt exceeds 75 percent of your net income, the excess may be carried forward up to five years. If premiums are still owing and you continue to pay them, you will receive donation receipts for those payments as well.

William N. gives a paid-up policy with a \$100,000 face value and a \$40,000 cash value. His donation receipt is for \$40,000, which results in a tax credit of \$18,000 (assuming a combined tax credit of 45 percent).

Q: What if I don't have an old policy to give?

A: You can take out a new policy in the name of (*Charity*) and spread the payments over a period of years. At your death, (*Charity*) will receive the full face amount of the policy. Meanwhile, you'll receive donation receipts for the premiums you pay, thus reducing your actual cost.

David R, age 45, makes his gift through a \$50,000 "five-year-pay" policy. For five years he pays annual premiums of \$1,962. Assuming a combined tax credit of 45 percent, he realizes a tax saving of \$883 each year, reducing his out-of-pocket annual cost to \$1,079. Thus, for a net cost of only \$5,395 (5 x \$1,079), David provides (**Full Name of Charity**) with a future gift of \$50,000.

Q: Are there other ways to use insurance in charitable giving?

A: An insurance policy is a good way to provide "final placement" when you have an asset you might otherwise leave to your heirs.

At age 60, Marilyn D. purchases a \$100,000 term life insurance policy. She pays \$1,000 per year. She receives tax savings of \$22,000 over the 20-year term of the policy. At her death it will go to her children, reducing the amount she gave to charity. Meanwhile, she still saves \$23,000 in taxes through the gift.

ADVANTAGE OF LIFE INSURANCE --

It can be a fulfilling use for a no-longer-needed asset, or the way to make a generous future gift for a modest current cost.

*Full Name of Charity
Street Address
City, Province, Postal Code
Telephone*

The purpose of this publication is to provide general information, not to render legal advice. In addition any changes in the tax structure may affect the examples listed in this information. You should consult your own lawyer or other professional advisor about the applicability to your situation.