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Your Legacy Through Life Insurance

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You may have acquired life insurance to provide liquidity to your estate to fund funeral costs, pay debts and cover income taxes. But what if your circumstances change and you no longer need an existing policy? Rather than let the policy lapse, you can realize significant tax savings and create a lasting legacy by directing the insurance to your favourite charity.

Your life insurance may be either term insurance or whole/universal life. For a term insurance policy, you purchase a certain level of coverage (the "death benefit") and agree to pay premiums that escalate as you grow older or may be locked for life (e.g., a T-100 policy).

For whole/universal life insurance, you not only purchase your level of coverage (the "death benefit"), but you pay extra premiums which get invested on a tax-sheltered basis within the policy (the "investment fund"). On death, both the death benefit and the investment fund (the "life insurance proceeds") are paid out to beneficiaries.

To direct the death benefit and investment fund of your insurance to a registered charity, you can either:

- Designate the charity as the beneficiary of the policy so that the charity receives the life insurance proceeds when you die; OR
- Gift your life insurance policy to the charity during your lifetime and have it receive the life insurance proceeds after you die.

Financial & Tax Outcomes

	Designate a charity as beneficiary of the life insurance policy	Gift the life insurance policy to a charity during your lifetime
Owner of the policy during your lifetime	You	The charity
Beneficiary of the policy	The charity	The charity
Tax implications at the time of making the designation or gift	No immediate tax consequences. The donation credit is deferred until after you die.	Deemed disposition of the policy for its cash surrender value "CSV" (only applicable for whole/universal life insurance, as term policies typically do not have a CSV). If the CSV is greater than the adjusted cost basis of the policy, the excess is taxable as income to you. Immediate donation credit as discussed below.
Ongoing premiums before death	Payable by you. No tax consequences.	Payable by the charity. However, if you agree to continue to fund them, the payment of the premiums will count as ongoing donations eligible for tax savings.
Payment on your death	The charity receives the death benefit and any investment fund.	The charity receives the death benefit and any investment fund.
Donation credits	Your estate receives a donation receipt for the value of the death benefit and any investment fund paid to the charity. The donation can be claimed in either your final personal tax return, the tax return for the year before your death, or in the Estate returns filed for the first five years of your estate. The donation can offset 100 percent of your net income in the year of death or the preceding year.	You receive a donation receipt at the time of the gift for the fair market value of your policy as determined by an actuary. Fair market value will be based on the CSV, the death benefit, your life expectancy, and the state of your health among other things. The donation can be claim in the year of the gift or in any of the subsequent five taxation years. The donation can only offset 75 percent of your net income in any year.
Special considerations	Ensure the charity is designated on the policy to avoid a payment into your estate that will be subject to probate fees.	Ensure you have held the policy for more than three years and did not acquire it as part of a "gifting scheme". Otherwise, the donation receipt will be reduced to the cost of your policy not its fair market value.

Connect with the Author

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