Charitable giving with My Par Gift

Canada Life's My Par Gift participating life insurance policy gives you the opportunity to have your favourite registered charity[i] own permanent life insurance that's paid-up with one premium payment. This article discusses the tax benefits of either an individual or corporation[ii] donating to a charity to fund Canada Life My Par Gift life insurance and tax-efficient donation strategies.

Gifting with Canada Life My Par Gift

Charitable giving with life insurance generally happens in one of two ways:

1) You can donate the insurance proceeds through your will or by naming the charity as beneficiary of a life insurance policy. From a tax perspective this is an effective method of gifting while reducing your tax bill at death.
2) You can pay the premium(s) on a life insurance policy that is owned by the charity. This is an effective method of gifting while reducing your tax bill during your life.

Canada Life My Par Gift™ is a life insurance policy that fits into the second method of gifting. The charity owns the policy from issuance and the donor funds the policy.[iii] It is a non-exempt life insurance product[iv], where a charity must always be the owner. Charities aren't subject to the tax implications that individuals or a business corporation would have to consider.

Many charities prefer owning the insurance policy for the following reasons:

- **Control over policy**: as a policyowner, Canada Life My Par Gift gives the charity greater assurance that it'll receive the insurance proceeds. This is because the single premium is used to purchase a paid-up policy. And since no further premiums are required, the policy won't lapse from non-payment of premiums. Also, this is unlike other methods (i.e donor-owned policy with charity named as beneficiary) where beneficiary designations may change, or the proceeds could pass through the estate and be exposed to other costs or used to satisfy other obligations.

- **Access cash value**: as a policyowner, the charity may choose to access the policy's cash value to fund their charitable initiatives. A policy's cash value may be accessed through a policy loan, cash withdrawal or by using the policy as collateral for a loan. A registered charity isn't taxable like an individual or a business corporation. As a result, charities are indifferent to the accessing options from a tax perspective.

- **Cash value not affected by disbursement quota**: as with any life insurance policy, Canada Life My Par Gift policy's cash value is excluded in calculating a charity's disbursement quota[v] which requires charities to spend a minimum amount on charitable activities to keep their charitable status with the Canada Revenue Agency.[vi] As such there may be advantages for a charity in holding a life insurance policy in comparison to other investments.

Canada Life My Par Gift also provides the additional benefit of being a participating policy with a single premium. This means the charity won't need to be concerned with managing the policy's growth activity or monitoring if premiums are paid and the policy is in-force.

See the *Canada Life My Par Gift Advisor Guide* on Canada Life's Insurance Marketing resource website for more product details and underwriting requirements.

Tax benefits of gifting with charity-owned life insurance

When a charity owns a policy on the insured's life, the donor is eligible for a donation tax receipt from the charity at the time the premium payment is applied to pay for the policy's coverage or at the time the donor donates cash or assets to the charity directly to enable the charity to pay the premium. With Canada Life's My Par Gift policy, a donor insured's estate won't be eligible to receive a donation tax receipt from the charity as a result of the the charity being paid the insurance proceeds at the time of the insured's death.

Accordingly, if an individual will have a significant tax liability at death (for example, from owning investments, shares of a private corporation or registered assets), they should consider owning another policy personally and naming the charity as beneficiary, or if applicable, having their corporation own the policy and having their estate or charity receive the insurance proceeds from the corporation pursuant to a share redemption. The insurance proceeds for that policy can be eligible for a donation tax receipt to be issued by the charity for the insured's final tax return and their estate.

The tax implications from a charitable donation are slightly different for individuals and corporations. The table below describes the tax benefits received by individuals and corporations when they receive a donation tax receipt from paying the premiums on a policy owned by a charity.

	Donation by an individual	**Donation by a corporation**
Tax benefit	• Receives a non-refundable tax credit	• Receives a tax deduction
Result	• Income taxes are generally reduced by approximately 50% of the amount of the donation (depending on province, amount donated, and the donor's marginal tax rate)	• Reduces its taxable income by the full amount of the donation
Limits	• Can use the charitable donation credit up to 75% of net income in the year	• Can use charitable deduction up to 75% of its taxable income in the year
Carry-forwards	• Unused charitable donation credits can be carried forward for up to five years, subject to the 75% limit	• Unused charitable deductions can be carried forward for up to five years, subject to the 75% limit

Tax efficient gifting: donating marketable securities

You or your corporation may have a significant tax incentive to fund your charitable donation by gifting marketable securities instead of cash. Upon receipt of the securities, the charity would sell them and use the sale proceeds to pay the

Canada Life My Par Gift single policy premium.

Typically, gifts of capital property made to a charity are deemed to be disposed of at fair market value for tax purposes[vii]. However, clients who own certain qualifying investments can donate these investments in-kind and benefit from a 0% capital gains inclusion rate[viii]. These investments include:

- Shares or debt obligations listed on designated stock exchanges
- Shares of a mutual fund corporation
- Units in a mutual fund trust
- An interest in a segregated fund[ix]

A 0% capital gains inclusion rate means none of the capital gain, if any, would be included in the donor's income for tax purposes as a result of the gift. Corporate donors of marketable securities having an accrued gain get an added valuable benefit of having 100% of the capital gain added to its capital dividend account (CDA)[x].

Example – Jim and JimCo

In this example, assume Jim, age 52, non-smoker, standard risk, is a regular donor to his favourite registered charity and wants to make a significant donation to help with funding the charity's future capital intensive projects. Jim's marginal tax rate is 50%. Jim owns 100% of the shares of JimCo, a private corporation. JimCo has a blended corporate tax rate of 30%.

His advisor suggested he could make a significant donation using Canada Life's one-pay participating life insurance, My Par Gift. After reviewing several types of policies, Jim decides that a Canada Life My Par Gift participating life insurance policy with it's one-time premium of $100,000, buys $155,000 of insurance coverage which in this example provides an immediate increase of 55% over the donated amount. In addition, the My Par Gift policy has the opportunity to grow with paid-up additional coverage purchased using the policy dividends[xi], which can help achieve his charitable objectives[xii]. Using the Canada Life 2022 dividend scale (effective July 1, 2022), this policy may produce the following cash value and death benefit amounts for the charity at the following durations:

Jim's age / year	Cash value ($)	Death benefit ($)	IRR on death benefit (%)
72 / 20	202,000	283,000	5.34
82 / 30	334,000	394,000	4.68
92 / 40	527,000	566,000	4.43

Jim's favorite charity applies for a policy on his life. Jim could pay the one-time $100,000 premium personally or through his corporation.

Jim pays the premium with either cash or marketable securities

The amount Jim gifts to the charity to pay the single premium will be eligible for a donation tax receipt issued by the charity. In our example, when Jim gifts $100,000 to pay the premium, he will be eligible for a $100,000 donation tax credit which could provide personal tax savings of approximately $50,000.

Alternatively, if Jim owns marketable securities with significant accrued gains he could donate such securities to the charity and the charity can then liquidate the securities to pay the single premium.

Let's assume he holds $100,000 of publicly traded shares with an accrued gain of $40,000. If Jim were to donate in-kind, his publicly traded shares he would be eligible for a donation tax credit of $100,000 and not pay capital gains taxes on the transfer. The donation tax credit will provide Jim with tax savings of approximately $50,000. In addition, he will not be required to pay taxes on the donated publicly traded shares. As noted earlier, the charity may liquidate such donated shares to fund the insurance policy premium.

JimCo pays the premium with either cash or marketable securities

The amount JimCo pays can be eligible for a donation tax deduction. In our example, if JimCo gifts $100,000 to the charity to pay the premium, the corporation will be eligible for a $100,000 donation tax deduction which will provide corporate tax savings of approximately $30,000 (assuming a blended corporate tax rate of 30%).

Alternatively, if JimCo owns marketable securities with significant accrued gains, it could donate such securities to the charity and the charity can then liquidate the securities to pay the premium. As noted, JimCo would benefit from a 0% capital gains inclusion rate and the addition of 100% of the capital gain to its CDA.

Let us assume JimCo holds $100,000 of publicly traded shares with an accrued gain of $40,000. If JimCo were to donate in-kind these publicly traded shares, it would be eligible for a donation tax deduction of $100,000 and not pay capital gains taxes on the transfer. Moreover, JimCo would be able to add $40,000 to its CDA.

The donation tax deduction will provide JimCo with corporate tax savings of approximately $30,000 and it will avoid paying future taxes on the donated publicly traded shares. To the extent JimCo has a CDA balance it could pay a tax-free capital dividend to Jim (assumed a Canadian resident). As noted earlier, the charity may liquidate such donated shares to fund the insurance policy premium.

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[i] All references to a charity in this article assume the charity is a "registered charity" as defined in the *Income Tax Act* [Canada].
[ii] Generally, the controlling shareholder must be one of the insureds.
[iii] The policy may be funded by either donating cash or assets to a charity and the charity makes the premium payment, or you may pay the premium directly to Canada Life at the request of, or with the concurrence of, the charity: see IT-244R3 *Gifts by Individuals of Life Insurnace Policies as Charitable Donation* (archived).
[iv] My Par Gift is a non-exempt life insurance policy that may only be owned by registered charties. See the My Par Gift Advisor Guide for more details.
[v] Subparagraph 3702(1)(b)(vi) of the federal *Income Tax Act Regulations*.
[vi] Currently, charities are required to disburse 3.5% of the value of assets not used in a charitable activity or administration if those assets exceed certain prescribed thresholds. In recent years, experts have called for an increase to the disbursement quota to avoid excess wealth accumulation by some of Canada's largest charitable foundations. As a result, the 2022 Federal budget announced that the Department of Finance was increasing the disbursement quota to 5% beginning in 2023 on the value of assets that exceed $1 million.
[vii] Paragraph 69(1)(b) of the federal *Income Tax Act* (ITA).
[viii] Subsection 38(a.1) of the ITA.
[ix] In the case of segregated funds, the entire contract must be donated.
[x] Definition of "capital dividend account" pursuant to subsection 89(1) of the ITA.
[xi] Dividends aren't guaranteed, but once they're credited to a policy, they belong to the policyowner
[xii] The example provided is not complete without the corresponding life insurance illustration, including the cover page, reduced example and product feature pages all having the same date. Read each page carefully as they contain important information about the policy.