PLANNED GIVING

A GUIDE FOR CLIENTS

Planned giving lets you continue to help others even after you are gone.

Life's brighter under the sun

Sun Life Financial

Planned gifts are more essential than ever to organizations working to enhance our collective quality of life. Individual Canadians are increasingly stepping forward to fill the gaps in funding created by today's economic realities. We're giving back to our communities by becoming more generous.

Planned gifts are a very important part of that generosity, generating much-needed dollars for charitable causes and meaningful tax relief for the contributors. Planned giving means making a charitable gift in a way that maximizes your tax and estate planning benefits. Your gift can be a one-time donation, a series of payments over a set period or ongoing support.

A planned gift is generally meant to perpetuate something of great value and meaning to you and may be the ultimate gift you can make, both in size and finality. You will generally be contributing a portion of the assets you have accumulated during your lifetime – savings, investments, real estate, retirement plan benefits, life insurance policies or tangible personal property.

Planned giving is often used to set up a permanent endowment fund. Donors rarely designate their gifts for spending in a charity's annual operating budget.

Done properly, planned giving benefits both society and you, the donor. Large gifts should be made part of your long-term tax, financial and estate planning. Sun Life Financial recommends you seek independent professional guidance on this matter.

WHY SUN LIFE FINANCIAL CREATED THIS GUIDE

We prepared this guide to give charities a thorough summary of the various ways an individual can make a donation. In addition, the federal government has made a number of changes in the form of tax incentives to encourage charitable giving. Many of our clients have asked us to help them ensure their donations give them optimal tax and estate planning benefits.

This information reflects the federal government's charitable contribution rules as of May 2016. As all information is subject to change, please discuss your needs in confidence with your advisor.

For your convenience, you'll find a glossary of terms at the end of this guide.

THINGS TO REMEMBER

Planned giving is a form of stewardship for the future. It is a way of showing you care, whether it is for a social or religious institution, community facilities, the arts, or for education and research.

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WHAT CONSTITUTES A GIFT?

To the Canada Revenue Agency (CRA), gifts are a "voluntary transfer of property without valuable consideration." Allowable gifts include cash, gifts in kind like stocks and real estate, and a right to a future payment, such as life insurance proceeds.

There is also a special category for "certified cultural property" – significant works of art and artifacts – which has helped many Canadian museums acquire exhibits. To qualify, the items must be certified by the Canadian Cultural Property Export Review Board.

Your planned gift may be a "present gift" the charity can use now, or a "deferred gift" that is only available in the future, generally after your death.

Most planned gift arrangements are one-way transactions that cannot be undone. Therefore, you should ensure you have enough money to meet your future needs and those of your family before making a large commitment. Wealth replacement insurance – life insurance equaling the amount of your gift – can be helpful if you still want to leave an estate for your family, and may be funded with part of the tax savings from your gift. This will be covered in more detail later in this guide. You should know that the CRA won't allow certain donations as "gifts" for tax purposes.

WHAT WON'T QUALIFY AS A GIFT

Time or services	A gift must be money or other property. For example, if a lawyer or other professional works for free for a charity, they cannot legally claim the value of the time as a donation. However, the professional could bill the charity and then donate the money as an eligible cash contribution.
Property of little value	You're not entitled to a tax receipt for used clothing or worn-out furnishings.
Part of donation for which personal benefit is received	For example, the cost of a ticket to a fundraising dinner will not be eligible in full. Your gift will amount to the portion paid above the value of the meal and entertainment.

CONSIDERING YOUR OPTIONS

To gain any tax benefits, you must not only make the right type of gift – it must go to one of the more than 85,000 charities the CRA authorizes to give tax receipts for donations.

These include:

- Charitable organizations
- Public and private foundations
- Registered amateur athletic associations
- Governments and government agencies in Canada (federal, provincial and municipal)
- The United Nations and its agencies
- Foreign charities
- Foreign universities on the prescribed list that ordinarily include students from Canada in their student bodies

A foreign charity may obtain registration for a two year period if the charity has received a gift from the Canadian government and is carrying on relief activities in response to a disaster, providing urgent humanitarian aid, or is carrying on activities in Canada's national interests. Generally, you can only get tax credits for donating to U.S. charities if you have U.S.-source income, or work in the U.S.

Charities not registered with the CRA cannot give you tax receipts.

A potential donor should work with a charity to make sure that a gift of life insurance will not prevent the charity from meeting its disbursement quota (the minimum amount a charity must spend each year on its charitable activities). A charity calculates its disbursement quota as a percentage of the average value of its property that has not been used directly in charitable activities or administration during the 24 months before the beginning of the charity's fiscal year.

For public charities, if that average value exceeds $100,000 ($25,000 for private foundations), the disbursement quota is 3.5 per cent of the average value of that property.

Life insurance could cause problems for a charity because the policy becomes part of the charity's property that isn't directly used in charitable activities (until the insured dies), and the donor's annual premium payments are not used to directly support any charitable activities in the year donated.

Working with the charity will help ensure your gift makes a lasting difference, instead of being used in one year. It will also help ensure the charity honours your wishes. For example, if you want your gift to be used only for a certain purpose, such as research or a scholarship, you can work with the charity to design restrictions so your gift is used as you intend.

TIPS

- To maximize the tax credits, married and common-law couples may pool receipts and report them on one tax return.
- If you wish, you can also save receipts for small annual donations for up to six years, which includes the current year. You can then make one combined claim in a year when your income is higher than usual and the tax savings may be especially useful.

SIMPLE CASH GIFTS

Simple cash gifts can be anything from making a cash donation at the door, sending a cheque in response to direct mail or telephone fundraising – whether it's a scheduled or special appeal – or having an automatic deduction off your pay that goes to a charity.

To claim the charitable tax credit for this type of gift, just ensure the charity has a CRA registration number – it must be printed on your receipt – and attach the receipt to your tax return. To reduce administrative costs, most charities automatically issue receipts only for donations of at least $10.

Even those of modest means use simple cash gifts to support causes that are meaningful to them, because this is the easiest type of gift to make. However, planned giving generally involves larger amounts.

GIFTS IN KIND

When you make a gift in kind, you are donating property that you own – like stocks and real estate – instead of cash.

To qualify for a tax credit, the gift must have real value. Used items such as already-worn clothing or cast-off furniture generally do not qualify under this clause.

A gift in kind must be a donation of actual property, not of personal services. In addition, you must be careful about receiving anything in return. If, for example, the charity allows you to display advertising in return for your donation of goods or agrees to pay the mortgage on a donation of real estate, you can receive a tax receipt for the difference between the value of your gift and the value of the benefit you get back. But the CRA may disallow a tax receipt if the value of the benefit to you is more than 80 per cent of the value of the gift or you cannot confirm the value.

The charitable tax credit is normally based on the donated property's fair market value. While the CRA generally will accept the charity's valuation of donated property worth less than $1,000, it's best to get an independent appraisal for more valuable items, as they may look closely at the valuations on gifted property.

The CRA has particular rules for donating certified cultural property and ecologically or environmentally sensitive land. Such gifts may be eligible for a tax credit of up to 100 per cent of your net income in the year of the gift, and are exempt from capital gains tax (the exemption from capital gains inclusion does not apply to gifts of ecologically sensitive land to a private foundation). Recently, in response to tax planning that inflated the values of works of art for donation purposes, the government has tightened the rules that apply to valuing cultural property.

There are special rules for gifts of publicly traded securities. This incentive effectively eliminates the capital gains tax payable when you donate publicly traded securities like Canadian stocks, some foreign stocks, bonds, mutual funds and segregated funds to Canadian charities. Normally you must pay tax on 50 per cent of any capital gains realized when securities appreciate in value. But if you give the publicly traded securities to charity, you pay no tax on the capital gain. In addition, you receive a tax receipt for the full value of the donation.

These rules have been very successful at encouraging charitable giving. The government reported that more than $300 million of publicly listed securities were donated to public charities in the first 10 months after the gifts became exempt from capital gains tax in 2006. It extended the exemption to donations to private foundations in the 2007 budget.

BEQUESTS UNDER A WILL

You may choose to be quite generous to a charity in your will, knowing you'll have no further need for the money.

Such a donation may save your estate a great deal of tax. Ordinarily, registered retirement savings plans (RRSP), registered retirement income funds (RRIF) and your capital property will be deemed to have been disposed of at your death, creating a large tax bill. However, if you donate these assets through your will, that could result in a very valuable tax credit for your final tax return.

A bequest is flexible, in that you can revoke the gift simply by changing your will. You can also donate a percentage of your estate instead of a strict dollar amount, which keeps your gift in line with your assets as they change.

However, there are major disadvantages to a traditional bequest. When all is said and done, creditors and estate administration costs – plus taxes not otherwise reduced or offset by the terminal year's charitable tax credit claim – may have eroded or even eliminated the funds your estate can actually give to your chosen charity. And depending on the family and succession laws in your province, you may not be able to "give it all away to charity", if you have dependants who would challenge your will in court.

It's best to get professional advice on this, since setting up a testamentary trust (a trust arising on your death) is not foolproof – your will can still be contested and a court can override the gift in your will. If you feel your survivors may question your decision, attach an explanatory side letter to the will to help clarify your wishes. However, such a letter is not legally binding on your executor or a judge, and will not prevent anyone from challenging your will in court.

Another disadvantage to a traditional bequest is your estate may not get full value for the tax credit if your income in the year of death and the preceding year are not high enough to claim a credit for all donations; this can easily happen if you die early in the year. Just as during your lifetime, there are limits to charitable deductions in the year of death, based on a percentage of your income. For a brief overview of the charitable taxation rules on death, please see the section *How much tax can I save.*

Finally, charitable bequests do not avoid probate, and probate involves a public process. If you wish to keep your giving private, you should realize probate makes your will a matter of public record. Also, all provinces except Quebec generally require the payment of probate fees or estate administration tax on your estate's value before distributions are made.

Whatever your situation, it's best to discuss your will with your executors and have it professionally reviewed every few years.

TIPS

If, after considering the disadvantages, you still want to make a traditional bequest, here are some additional tips:

- Ensure the recipient charities are identified by their proper legal names.
- If you're planning to give property such as a cottage to charity, make sure you update your will if you decide to sell the property while you're still alive instead.
- If you wish to leave a large gift for a specific purpose, contact the charity in advance to ensure they can actually accept the gift.

GIFT OF A PERMANENT LIFE INSURANCE POLICY DURING LIFE

Permanent life insurance is a cost-effective way to make a much larger contribution to the charity of your choice than would otherwise have been possible. You may choose to give a new policy or an existing policy you no longer feel you need.

Properly using life insurance to make a planned gift also eliminates many of the problems that can otherwise arise when leaving a gift via your estate.

There can be no disputes over ownership of the policy proceeds, because the charity already owns the policy before you die. You purchase the policy and arrange the terms of payment (generally, you arrange to make donations to the charity, which then pays the premiums). However, the charity owns the policy and is the beneficiary, and only the charity can change the beneficiary. This ensures your gift goes to the charity, in the amount you intend. As the beneficiary, the charity receives all the proceeds of the policy when you die, and the benefits cannot be contested, taxed or claimed by your creditors.

A qualified advisor can help you take advantage of the tax savings that accompany this type of planned giving with life insurance. You can get a tax receipt for all the premiums you pay after the charity owns the policy. You can also get a tax receipt for the fair market value of the policy if you donate an existing permanent policy. In addition, setting up your planned gift to ensure the charity is the owner of the life insurance policy as well as the beneficiary has another important benefit. Under Canadian tax law, it is the only way you can receive tax relief for the premiums you pay during your lifetime. However, there are no further tax deductions for the death benefit upon your death.

Planned giving with life insurance gives you the emotional satisfaction of knowing you will help a cause or an institution you care about after you are gone. Depending on the type of insurance that you purchase, the amount of insurance may even increase over time.

If you acquired your policy less than three years before making a gift of the policy to a charity, or if you acquired the policy less than ten years before the gift was made, and it's reasonable to conclude that one of the main reasons for the acquisition was to make a charitable gift of the policy, the charity can only give you a charitable donation receipt for the lesser of the policy's fair market value (FMV) and its adjusted cost basis (ACB). It's important to bear this in mind if you're thinking of transferring a corporate-owned policy to yourself, and then donating it. Your time will run from the date you acquired your policy from the corporation.

GIVING THE PROCEEDS OF A LIFE INSURANCE POLICY ON DEATH

If you prefer to retain ownership of the life insurance policy, the picture is a little different.

On the plus side, you are the actual owner of the policy, so you can change beneficiaries whenever you want, just like in a traditional bequest. You have access to the cash value within a permanent life insurance policy during your lifetime should you need it. Also, the death benefit would be paid outside your estate, so the money would not be subject to probate and estate administration fees, and it will not be on the public record.

You may designate the charity of your choice as the beneficiary of a policy on your own life. The charity will receive the proceeds of your life insurance policy upon your death. There is no income inclusion or tax to your estate when you die – it is not a disposition. The death benefit is received tax-free by the designated beneficiary.

In addition, in the year of your death, the charity will issue a charitable receipt for 100 per cent of the amount paid to the charity. The proceeds of the policy will count as a charitable donation on your final tax return – the one prepared on your behalf by your executor.

However, when you retain ownership of the policy, you will not receive tax receipts for the premiums paid during your lifetime. As noted in the previous section, *Gift of a permanent life insurance policy during life,* you can only receive tax receipts for the fair market value of an existing permanent policy when you donate it to charity along with tax receipts for all premiums you paid after ownership of the policy has been assigned to the charity.

Depending on your preference, you can choose to donate a policy during your life, and you will receive annual tax receipts for the premiums you pay for the donated policy (plus a tax receipt for the fair market value of an existing policy). Or, if you donate the proceeds of a policy after death, a single, larger tax receipt will be given on death.

GIFT OF INSURANCE POLICY DURING LIFE VS. GIFT OF INSURANCE PROCEEDS AFTER DEATH

	GIFT OF POLICY	GIFT OF PROCEEDS
Who owns policy?	Charity owns	You own
Who is the beneficiary?	Charity – Certainty but no flexibility: you cannot change the designation because you no longer own the policy.	Charity – Flexibility. You may change the designation at any time before the life insured's death.
Who pays premiums?	Charity as owner has to pay, but you can donate the amount	You pay
Who has access to policy cash values?	Charity	You
What tax donation receipts can you get?	1. Fair market value of policy, if any, when donated 2. Premium payments, if any	Full policy proceeds paid after death

GIVING THE PROCEEDS OF RRSPS OR RRIFS ON DEATH

Another way to give is to designate a charity as the beneficiary of your RRSP or RRIF.

Again, in this case, you are the actual owner of the RRSP or RRIF, so you can change beneficiaries whenever you want, just like in a traditional bequest. The charity of your choice will receive the proceeds of your registered plan upon your death.

In the case of an RRSP or RRIF, you are deemed to have received the full balance of the income in your final year of life. That income inclusion will likely increase the tax owing on your final return – the one prepared on your behalf by your executor.

On the other hand, the proceeds that are actually donated will count as a charitable donation on that same final tax return.

CHARITABLE GIFT ANNUITIES

A charitable gift annuity, also known as a gift plus annuity, is a way to make a planned gift while setting up an income for you. One of the advantages of a charitable gift annuity is that you're not only helping the charity of your choice, you receive money to live on without the need to manage your own investments. This can be very tax-effective.

Most charities can arrange a charitable gift annuity. A limited number of charities will issue a charitable gift annuity directly. However, most charities will arrange to buy an annuity from an insurance company on behalf of the donor. In either case, the donor will own the annuity and receive an annuity income. The annuity provides set payments for a specified number of years or for life. The charity generally retains 25 per cent to 30 per cent of the donation and uses the balance to purchase the annuity. Once set up, a charitable gift annuity is irrevocable.

You receive a guaranteed income each year from the annuity, much of it tax-free. This income may be greater than what you'd earn on a similar sum invested in a vehicle such as a Guaranteed Investment Certificate (GIC). This is because the CRA deems part or all of the annuity income you receive to be a return of capital. You will receive a tax receipt for the amount by which your gift exceeds the current cost to purchase the annuity from an insurance company. Most of your payments will still be tax-free even if you live longer than predicted by the life expectancy tables that are used to calculate the annuity payments. This type of gift is most advantageous for donors aged 70 or over.

Couples may prefer a "joint and last survivor" annuity. This annuity provides payments until both individuals have died.

TIPS

Going further with charitable gift annuities

- If the annuity income is more than you need, you can donate some of it back to the charity and receive a tax receipt. Another possibility is to take out a life insurance policy and use your after-tax annuity income to pay the premiums. You can then use the policy to make another gift to charity, or to offset the depletion in your estate caused by the original gift (see the *Charitable insured annuities* and *Wealth replacement insurance* sections later in this guide).
- Remember, if you assign an insurance policy to the charity, you will receive an additional tax credit for each insurance premium that you pay. However, the policy must be owned by the charity, which must also be the beneficiary. If you own the policy and designate a charity as the beneficiary, you will not receive tax credits for premiums paid. But you will get a terminal tax credit for the amount of the death proceeds paid to the charity.

CHARITABLE REMAINDER TRUSTS

Another way to significantly help a charity while you receive income in the here and now is through an irrevocable inter vivos charitable remainder trust (inter vivos means during your life, and refers to a trust you create during your lifetime). Like the charitable gift annuity, this alternative gives you, the individual, immediate tax relief – instead of only providing tax relief to your estate after your death.

A charitable remainder trust is a living trust you start during your lifetime by contributing cash or other property to the trust. If the assets you transfer to the trust have unrealized capital gains, the transfer may trigger capital gains tax consequences. You'll receive income from the trust throughout your lifetime where the gift consists of investable assets. If you donate non-financial assets (like real estate or artworks), you'll continue to have the use of those assets throughout your lifetime.

When you die, whatever is left in the trust, the "remainder", will pass directly to the charity of your choice. The charity can issue a tax receipt at the time of your donation for an amount based on the value of the property that will eventually go to the charity. Your tax credit will be based on the value of the residual interest – the present value of what the charity will ultimately receive from the trust when you die. This calculation takes into account the value of the property transferred into the trust, interest rates, and your life expectancy. The older you are when you make the contribution, the greater the tax credit will be. For those in their 80s, the tax relief may run as high as 70 per cent of the transfer's value.

To establish a charitable remainder trust, you'll need to consult a lawyer experienced in estates and trusts. He or she should draft a trust deed naming the charity of your choice as the trust's capital beneficiary. Once chosen, the capital beneficiary choice cannot be changed.

You establish the trust by contributing cash or other property. It's best if your trust is worth at least $200,000 initially, because you'll have to pay professional fees for set-up and annual administration. These fees may make smaller trusts too expensive to create and administer.

If you have a spouse, you may want to set up your trust so the property you've contributed passes to the charity only after both spouses have died. Your trustee will manage the assets in your trust. If the trustee lacks experience in managing money you can help them by inserting a clause in the trust document that lets them hire a professional money manager. Asking a money manager to also be your trustee could put that person in a conflict of interest position if they are paid a commission for products they sell. Their duty to the trust beneficiaries is to get the best investments at the best price, which may conflict with how they are paid.

Charitable remainder trusts are less common in Canada than in the United States, but your charity or a trust company should be able to refer you to a knowledgeable lawyer. Legal fees to set up such a trust mostly depend on its complexity.

If your trust holds investment assets, you will receive – and pay tax on – the income realized by the trust each year.

Be sure to consider your future financial requirements and those of your family before establishing such a trust. Once it is set up, you cannot withdraw any capital. The capital stays intact and goes to the charity when you die, without going through probate.

CHARITABLE TAX CREDIT VS. CAPITAL GAINS TAX:
A BALANCING ACT

Capital gains tax applies if you contribute capital property with accumulated capital gains to a charitable remainder trust. You may elect the value of the property (between its cost and the current fair market value) when you make the gift. While choosing a lower gift value will reduce the amount of your capital gains tax, it will also decrease your tax credit. Depending on your situation, your tax credit may offset the capital gains tax bite. This is similar to the capital gains tax treatment of most other gifts. It's important to know that if you transfer publicly traded securities to your trust, they won't be eligible for the capital gains tax exemption. This is because the transfer is not a direct gift to a charity – so, the special charitable tax rule doesn't apply.

ENDOWMENT FUNDS

Many charities will accept a gift that is set up as an endowment – one where the charity invests the gift and uses the income for a purpose specified by the donor. The charity is not permitted to use the capital of the endowment except in very limited situations or when the donor has expressly given permission for it.

Endowment funds are used to help fund ongoing programs or activities offered by a charity. They may also be set up to help a charity construct or buy a new building, or for an expansion or repairs of an existing facility. A charity may use such a gift to help purchase equipment, for example, when a hospital's endowment fund helps finance an expensive diagnostic machine, such as a CAT scan, or a new surgical ward.

Some of us have fond memories of the place we went to school – often the college or university where we got our degree. If you are in this category, you may wish to help the educational institution of your choice with an endowed gift. Educational endowment funds generally are used to provide scholarships, fellowships, bursaries and research grants. Sometimes a very large donation to an endowment funds a permanent position, such as a professorship.

Many types of planned gifts can go to an endowment fund – a gift of life insurance, the proceeds of an RRSP or RRIF, or a traditional bequest under a will.

CHARITABLE FOUNDATIONS

Today there are over 4,500 Canadian private foundations with reported assets of more than $10 billion – about two-thirds of them private family foundations. Creating and operating a private foundation is a highly specialized legal and estate planning area you should only consider if you're willing to commit several hundred thousand dollars to charity. However, if you're able to give on this level, this method provides you with great flexibility in controlling the use of the money, because the donation is not tied to a specific charity.

Private foundations have two major administrative advantages. Unlike other charities, they can receive more than 50 per cent of their capital from one person or group of related people. And there is no requirement for at least half of the directors to deal with each other at arm's length.

You'll be creating a non-profit organization you fund yourself or with a small group. Your private foundation's directors or trustees will award grants on a case-by-case basis, thereby assisting specific charitable work by others. Your foundation may also contribute to other registered charities.

Private foundations have traditionally been a way for high net worth people to dispose of property with substantial capital gains. A special tax rule that permits you to value your gift between cost and market value allows you to plan your tax credits to minimize or avoid tax on the gift – while creating a lasting legacy.

Since March 2007, publicly traded securities are simply exempt from capital gains tax when they are donated to a private foundation. However, special rules for private foundations are intended to prevent possible abuses of their tax privileges. They must file reports of their private and public shareholdings and pay a penalty tax on shareholdings that exceed specified limits.

If you have less money to give, you may want to consider the more than 150 non-political community foundations in Canada. These use money from many donors to benefit a city or region. Depending on the amount, your gift may go into a general fund or be administered separately as you direct (a donor-advised fund). There are also special purpose foundations that invest money collected from donors and use the income to fund grants.

While contributions are usually made within guidelines set by the founders, several large family foundations now have no ties to the original donor family.

CHARITABLE INSURED ANNUITIES

The section on *Charitable gift annuities* in this guide described the tax advantages of an annuity income, which includes a tax-free return of capital, over the fully taxable income from investments such as a GIC. You can combine the tax advantages of an annuity and a donation of a life insurance policy to achieve your charitable objectives in a highly tax efficient strategy that is sometimes known as a charitable insured annuity.

To do so, you take out a life insurance policy. You either donate it to a charity or name the charity as the beneficiary, after considering the results of each choice described in the *Gift of a permanent life insurance policy during life* and *Giving the proceeds of a life insurance policy on death* sections of this guide. You also purchase a life annuity and use the annuity income to pay the premiums. The annuity can be a charitable gift annuity but this is not necessary. Whether you choose to receive an annual charitable tax receipt for the premium payments or a single tax receipt for the policy proceeds after death, the after-tax annuity income permits a larger gift than would be possible using other sources of funding for the gift.

WEALTH REPLACEMENT INSURANCE

Purchasing a wealth replacement insurance policy for the benefit of your heirs may make a charitable gift possible for you.

People wishing to make substantial gifts to charity without diminishing their legacy to their heirs are making wealth replacement insurance an increasingly popular option.

You purchase a life insurance policy, naming your heirs as beneficiaries. Then, your heirs receive the proceeds from the policy upon your death in lieu of the cash, securities, artwork or real estate you donated to the charity. While the proceeds from the policy may not equal the value of the asset you've donated, you can be sure the tax-free proceeds will be paid to your heirs in cash.

If you choose not to donate an asset, such as artwork, and it appreciates in value, it may have to be sold after your death to pay capital gains tax. Depending on the structure of your estate, this may diminish what your heirs receive. Donating the asset and purchasing a wealth replacement policy ensures you know exactly what your heirs will receive.

You can also choose to have the policy proceeds increase in value as the asset may have done, by purchasing a policy with an increasing death benefit.

Depending on your age and state of health, you may be able to pay the policy's premiums with the tax savings resulting from your lifetime charitable gift. In contrast, a testamentary gift won't free any funds through tax savings during your lifetime – you must have some other income source to pay the premiums.

Another option is to apply the income from a charitable gift annuity or other annuity to pay the premiums.

If you have a spouse, you may choose to reduce the cost of the premiums by purchasing a "second-to-die" policy. This type of policy pays your heirs only after both of you are gone.

HOW MUCH TAX CAN I SAVE?

Here is a brief overview of the current rules governing donations and Canadian charitable tax credits.

- Inter vivos gifts – charitable donations made during an individual's lifetime – are eligible for a tax credit of up to 75 per cent of the donor's net income. Premiums paid on a life insurance policy that has been given to a charity are eligible for this tax credit.
- In addition, if the gift is capital property, 25 per cent of the realized capital gain and 25 per cent of the recapture depreciation can be added to the amount that is eligible for the calculation of the charitable tax credit.
- If the tax credit for a gift made during the donor's lifetime exceeds the net income limit, the donor may claim the unused portion of the tax credit during the next five years. For example, if John gives his local hospital foundation a gift of $200,000, and his net income that year is $80,000, he can claim $60,000 in the year of the gift, $60,000 for each of the next two years and $20,000 in the fourth year (assuming his income doesn't change and he makes no other donations).
- Tax credits claimed for testamentary gifts – gifts made on death, such as a bequest in a will or naming a charity as the beneficiary of your life insurance policy – can be up to 100 per cent of net income for the year of death.
- After a donor's death, there is a one-year carryback of up to 100 per cent of net income for the year preceding death. Excess tax credits for testamentary gifts can be applied against this carryback. This generally requires re-filing of the previous year's tax return.
- Gifts of certified Canadian cultural property and of environmentally sensitive land may be eligible for a tax credit of up to 100 per cent of net income in the year of the gift. This type of gift is exempt from capital gains tax.
- Gifts of appreciated property (i.e. most artwork, real estate or shares of privately held companies) can be made during one's lifetime or after death. In order to reduce the capital gains tax arising from the gift, donors may elect a value for the appreciated property that is between the property's adjusted cost base and the current fair market value. Donors can claim a credit against net income plus an additional tax credit equal to 25 per cent of the capital gains tax arising from the gift. The additional credit must be claimed in the year that the gift is made.
- Gifts of publicly traded securities are eligible for very favorable tax treatment, thanks to special rules. This incentive eliminates the capital gains tax payable when you donate publicly traded securities like Canadian stocks and some foreign stocks to Canadian charities as well as public and private foundations. Normally you must pay tax on 50 per cent of any capital gains realized when securities appreciate in value. But if you give the shares to charity, you pay no tax on the gains; your tax receipt will be for the value of the securities.
- First time donor's super credit – If neither you nor your spouse or common-law partner have claimed a charitable donation tax credit for any year since 2007. The credit is 25% of the total amount of donations up to $1,000 made after December 31, 2012, and before January 1, 2018. The credit can be claimed only once, must be shared between spouses or common-law partners, and must be claimed for the same year that a regular donation credit is claimed.

Tax implications vary based on your particular circumstances. For example, you may be subject to the alternative minimum tax. Please consult a qualified taxation professional.

WHERE CAN I GET MORE INFORMATION?

There are several ways you can get more information about planned giving. One is to contact the charity of your choice, to see if they have a planned giving officer trained to help people like you. You can also pick up one of the several free publications explaining the rules for charitable tax credits from your CRA district taxation office. For example, *Gifts and income tax* is a pamphlet for the general public. If you have a tax advisor, you may want to ask for their help.

The CRA provides its interpretation of the *Income Tax Act* with bulletins for tax advisors, and has produced a number of bulletins dealing with planned giving. The CRA publishes a wealth of general and technical information related to charitable giving on its website, www.cra-arc.gc.ca, under *Charities and giving. Click "Find a form or publication".*

Sun Life Financial also has planned giving resources; your Sun Life Financial advisor can provide you with the resources available.

THE VALUE OF PROFESSIONAL ADVICE

Don't assume that planned giving is a rich person's game. Even if you consider yourself to be of modest financial means, a little careful planning can help you meet your charitable objectives and provide you with optimal tax relief, while also benefiting your chosen charity. Even though estate planning may sound straightforward, it can be difficult weaving your way through an increasingly complex planning environment. While it's possible to structure your own planned gift, professional advice can be invaluable.

A well-designed planned gift often requires help from several professional advisors. The team members you choose to help plan your gift will depend upon the size and complexity of the gift and your overall financial and estate plans. You may need the services of a lawyer, a tax advisor or accountant, the planned giving officer from your charity, as well as a financial security advisor – often an insurance professional with financial security planning experience.

WHAT WILL YOUR ADVISORS DO?

They will:

- review the various aspects of your financial and estate plans.
- pinpoint problems and opportunities.
- help you carry out your gift plan.
- help you clarify your planned giving goals.
- recommend planned giving and financial strategies.
- monitor your plan over time, as required, to ensure that it continues to be the best one for you.

GLOSSARY

ADJUSTED COST BASE – The cost of a capital property for tax purposes.

ALTERNATIVE MINIMUM TAX – A set of rules designed to limit the tax advantage that an individual can obtain in a year from certain tax incentives, such as capital gains and tax-shelter investments.

BENEFICIARY – A person who receives a benefit or gift under a will or trust, or a person for whose benefit a trust is created. This term also refers to the designated recipient of a life insurance policy, an RRSP, RRIF, RPP, annuity or deferred annuity contract.

CAPITAL COST ALLOWANCE – Tax deduction for depreciation - wear and tear over time on capital property such as manufacturing equipment.

CAPITAL GAIN OR LOSS – The difference between a capital property's fair market value and its adjusted cost base – essentially what you've made (or lost) on the investment.

CASH SURRENDER VALUE – The amount, if any, the insurer is required to pay if you cancel a life insurance policy. For tax purposes, the cash surrender value of a policy is calculated before a deduction for any outstanding policy loans or an addition for any policy dividends payable under the policy or interest on them.

CERTIFIED CULTURAL PROPERTY – A gift to a designated cultural institution of property considered to have special significance by the Canadian Cultural Property Export Review Board.

CHARITABLE REMAINDER TRUST – A donation strategy in which you transfer property to a trust and name a charity as the capital beneficiary. During your lifetime, you (or anyone you choose) can use the property or receive any income it generates.

DEFERRED GIFT – A charitable donation arranged now to be paid sometime in the future, generally after your death.

ENDOWMENT FUND – A donation made to fund a specific purpose. The charity invests the donation and uses the income generated to fund the specified project.

ESTATE – The right, title or interest a person has in any property. This term is also used to refer to all property owned by an individual when they die.

GIFT IN KIND – A gift of property other than money.

GIFT TO THE CROWN – A donation to a federal or provincial government body or crown foundation authorized to raise money for institutions such as hospitals, museums, libraries and universities.

INTER VIVOS GIFT – A charitable donation made during an individual's lifetime.

PLANNED GIVING – A charitable gift made in a way that maximizes tax and estate planning benefits.

PRESENT GIFT – A charitable donation where you make the gift now, not at some future point.

PROBATE OF WILL – Formal proof before the proper officer or court that the will being presented is the last will of the testator, and confirming the executor(s) named (liquidators in Quebec). This is a matter of public record, listing the deceased's assets, and involves the payment of fees. In Quebec, wills must be probated if they are not formally notarized, but there are no probate fees.

TESTAMENTARY GIFT – A gift made on death, such as a bequest in a will.

TRUST – A legal arrangement in which one person transfers legal title to a trustee to hold and administer property for the benefit of a person or institution. A testamentary trust is set up in a will and takes effect only after death. A living trust – inter vivos – is a trust set up during someone's lifetime. In Quebec, a trust is a separate entity that is created under the Civil Code under three categories: personal trust (to benefit certain individuals, e.g., inter vivos family and testamentary trusts), private trust (to maintain property for a specific use, e.g., an RRSP) and social trust (for social reasons, e.g., a charitable foundation).

TRUSTEE – The person or institution taking legal title to the property and required to follow the terms of the trust. This could be a trust company or an individual. You may also name joint trustees, with a trust company managing the property and legal requirements while an individual advises on the discretionary distribution of funds. In Quebec, a trustee undertakes, by his acceptance, to hold and administer the trust patrimony for the particular purpose of the trust. The Civil Code provides specific rules for appointing the trustee, the trustee's duties and his or her acceptance or refusal of those duties.

WILL – A legal document prepared in compliance with formal requirements taking effect upon death. It states what a person wants to happen to his or her property after they die.

Notes

WHY CHOOSE SUN LIFE FINANCIAL?

Sun Life Financial is a leading international financial services organization. In Canada, we started selling life insurance in 1871. Since then, our commitment to helping people achieve lifetime financial security through market-leading products, expert advice and innovative solutions has made us a household name – a name that people trust.

For the seventh year in a row, we were voted by Canadians as the "Most Trusted Life Insurance Company" in the Reader's Digest 2016 Trusted Brands™ Survey. We're honoured by this award and your continued trust in us.

WE'RE DEDICATED TO HELPING YOU ACHIEVE A LIFETIME OF FINANCIAL SECURITY.

For more information and resources visit www.sunlife.ca, or call 1 877 SUN-LIFE (1 877 786-5433).

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