

## Different types of donations

Planned giving is above all a gesture that comes from the heart. However, it is important to be informed about the tax regulations which will be applied. **The more structured your planned gift is, the greater its impact.**

Below, you will find succinct definitions of each of the main types of planned donations. We recommend that you **contact a legal or financial advisor** for more information.

*You will find some case studies on the [blog of our Web site](#).*

LEAVE A LEGACY™ Québec also publishes two brochures: one on planned giving and one on charitable bequests. To obtain a free copy of these brochures, contact us at [info@unheritage.org](mailto:info@unheritage.org)

### Charitable Bequests

Once you secure the well-being of your family and friends, you may choose to include in your will a significant donation to one or many charitable organizations. If important changes occur in your life, you can always modify your will according to your situation.

A charitable bequest continues to be one of the simplest and most accessible means of planning a gift. Providing first for the well-being of one's family and loved ones, you can also bequeath an amount or percentage of your assets to one or more charitable organizations of your choice. There are indeed many ways to do so:

- Specific bequest (a fixed amount or identifiable asset);
- Residual bequest (all or a percentage of the remainder of the estate after the payment of debts and specific bequests);
- Designating a charity as contingent beneficiary in the event of death of the primary beneficiary;
- Universal bequest (all of the assets, sometimes divided among many beneficiaries);
- Designating a charity as beneficiary of an RRSP, RRIF or life insurance policy;
- A simultaneous death clause whereby the charity inherits, should all the beneficiaries die at the same time.

In each case, a tax receipt will be issued for use in the final tax return. The fiscal advantages that follow from charitable bequests can dramatically reduce the taxes to be paid out by the estate.

### **Gifts of Life Insurance**

There are various ways of making a gift of life insurance. The type of gift will depend on your client's objectives, age and family situation.

- Surrendering an existing policy. If you no longer need the protection of your life insurance policy, you may surrender it to a charitable organization and continue to pay any premiums still owing, if applicable. Note: this case constitutes a transfer and not a conversion.
- Purchasing a new policy. If you wish to make an important donation but your means are modest, you can purchase a life insurance policy and subsequently name a charitable organization as beneficiary. In this case, it is always preferable to spread out the payment of the premiums over a limited period of time, for example three, five, seven or ten years. For each premium paid, you will receive a donation receipt for the amount of that particular premium.
- Designating a charitable organization as the beneficiary of the death benefit. The organization may be named the beneficiary of the death benefit, in whole or in part, of a life insurance policy. It can also be a second or third beneficiary. This ensures protection of the death benefit, in the case where the first beneficiary of the policy passes away before the owner of the policy. The death benefit will then support the organization you have chosen.

In many ways, using a life insurance policy makes it possible to make a major gift while protecting the inheritance of one's heir(s).

The gift of life insurance can generate significant tax savings for the donor. In order to benefit from these savings immediately, you must designate the organization as beneficiary and owner of the policy. You will then be issued a tax receipt for the fair market value of the policy, if applicable, and a receipt for each premium payment.

As your donation is made while you are living, there are no fiscal advantages for the estate. However, if you foresee that your estate will be left with a heavy fiscal

burden, it may be more beneficial for you to name the organization as beneficiary of your policy, in part or in total, but remain its owner. This way, the donation is finalized at the death of the donor and the fiscal savings are awarded when settling the estate. In this case, you do not receive tax receipts for the premiums paid while living.

### **Gifts of Real Estate**

You can donate a family residence to a charitable organization while continuing to use it until the end of your life. You will receive an income tax receipt of the commuted value of the asset at the time of the donation. At the time of death, the charitable organization will obtain the use of this residence. If real estate assets other than the primary residence are donated, 50% of the capital gain is taxable.

### **Gifts of Listed Securities** (eligible shares and other securities)

The gift of publicly listed securities, bonds, mutual fund units or other similar securities is one of the most fiscally advantageous ways to make a substantial donation to a charitable organization because the donor will avoid paying tax on the capital gain. The gift of shares or other securities will give rise to a tax credit. It is more advantageous to transfer the securities directly rather than to donate the proceeds collected from selling the securities. This type of donation is advisable to those who wish to make a substantial donation without encroaching on their liquid assets, or to those who own shares or other securities which have significantly increased in value since their acquisition.

### **Charitable Annuities**

A charitable gift annuity consists of a donation of money or other assets to a charitable organization in exchange for guaranteed earnings for life or for a determined period of time.

The organization can issue the annuity itself and assume the risk associated with it. In order to avoid assuming the risk, it can also buy this annuity from a life insurance company and name the donor as the primary beneficiary of the annuity. The residual amount is paid to the organization, as a secondary beneficiary, when the grantee of the annuity passes away.

In both cases, the annuitant will obtain regular payments in compensation for the capital transferred to the charitable organization.

If the annuity is insured, only the organizations recognized by the Canadian Revenue Agency (CRA) as charitable organizations are allowed to receive this type of planned gift. It is also imperative to check that the provincial laws and specific rules of the organization allow for this type of activity. The surplus of the annual annuity on the cost of the annuity divided by the life expectancy is equal to the taxable portion. The receipt that you will receive equals the difference between the capital paid and the market value of the annuity. Often, tax credits will cancel the taxes to be paid.

### **Charitable Remainder Trusts**

Creating a charitable remainder trust allows you to make a substantial donation, while still receiving the income generated from the asset you are transferring. The trust manages the allocated capital until the time of death; at that time the capital will be transferred to the charitable organization chosen. Setting up such a trust entitles you to a donation receipt of the commuted value of the transferred assets.

### **Endowment Funds**

Endowment funds, when used as a type of planned gift, consist of transferring an important sum to a charitable organization and designating the particular cause which will benefit from the income generated by the capital transferred as a donation. The terms and conditions pertaining to such a fund are documented in a contract between the organization and the donor. In order to comply with the standards of the Canadian Revenue Agency, the capital will remain intact for life or for a minimum of ten years; the organization is subject to disbursement quotas, which are 3.5%. The charitable organization that you will have selected will manage the capital and will present you with an annual report, providing all relevant financial information. You can choose the name of the fund in order to perpetuate the memory of a loved one.