rethink.

Leave a legacy of generosity

Canadians donated $10.3B in 2019.[1] But we might want to rethink if they're donating efficiently. Donors often give after-tax cash, but they could donate other assets like real estate, stocks or even life insurance. A strategic donor decides which assets to donate to ensure they make the biggest impact. Canadian tax laws provide a strong incentive to open our wallets to charity, but the maximum tax credit one can apply depends on their net income and the timing of their donation.[2]

Should my client donate a life insurance policy today or at death?

The best way to decide is to compare the tax advantages of each option by examining the tax credits accumulated over a donor's lifetime.

Consider a 45-year old female non-smoker. She's looking to maximize her charitable impact and tax credit so she chooses SunUniversalLife II with level payments for life and a $1M death benefit. Her current taxable[3] income is $250,000 but it will decline to $75,000 when she retires at age 65. She expects to have an additional taxable capital gain of $300,000 at death.

[1] https://www.statista.com/statistics/478794/total-charitable-donations-in-canada/

[2] Donors can apply a non-refundable tax credit to their donation to reduce their tax bill. The combined federal and provincial tax credit ranges from 40% to 54%, depending on the province of residence and income earned.

[3] For simplicity, we've used the term "taxable income". However, the income tax act refers to "net income", which is total income minus deductions. This value is used when applying an individual's applicable tax rate to calculate taxes owed.

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Calculate the tax credit the client can actually use

		Insurance policy				Client's net income		Tax credit: Donate today[5]		Tax credit: Donate at death[5]
Year	Age	Annual Payment[4]	Cash Value	Death Benefit (Donation at death)	IRR on death benefit	While alive	In year of death	Annual tax credit	Accumulated tax credits at death at 2.0%	One-time tax credit
5	50	10,490	0	1,000,000	121.5%	250,000	550,000	4,584	23,856	334,539
10	55	10,490	2,433	1,000,000	39.6%	250,000	550,000	4,584	50,195	334,539
15	60	10,490	4,065	1,000,000	21.1%	250,000	550,000	4,584	79,276	334,539
20	65	10,490	6,056	1,000,000	13.3%	75,000	375,000	4,173	110,972	257,259
25	70	10,490	8,487	1,000,000	9.2%	75,000	375,000	4,173	144,236	186,979
30	75	10,490	11,453	1,000,000	6.7%	75,000	375,000	4,173	180,962	186,979
35	80	10,490	15,074	1,000,000	5.0%	75,000	375,000	4,173	221,511	186,979
LE **40**	**85**	**10,490**	**19,492**	**1,000,000**	**3.9%**	**75,000**	**375,000**	**4,173**	**266,280**	**186,979**
45	90	10,490	24,883	1,000,000	3.0%	75,000	375,000	4,173	315,709	186,979
50	95	10,490	31,463	1,000,000	2.3%	75,000	375,000	4,173	370,282	186,979
55	100	10,490	39,493	1,000,000	1.8%	75,000	375,000	4,173	430,536	186,979

LE = Life expectancy

[4] Premiums based on resident of Ontario

[5] Premium payments are made at the beginning of the year. The death benefit is assumed to be paid at the end of the year. For simplicity, tax credits are assumed to be received in the same year as the premium or death benefit payment. The actual tax credit is limited by taxes owed. The figures used for the tax credit at death are based on the tax liability at death plus the current and previous year's income taxes using a tax rate of 53.53%

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Rethink your client's donation strategy.

Choosing to donate an insurance policy today could result in your client relinquishing control of the policy. But may allow for a greater accumulated tax credit, depending on their taxable income and year of death.

Contact a Sun Life sales representative to learn about our *Charitable Giving – Donate today or at death* Excel tool.

	Donate today	Donate at death
Policy owner	Charity	Donor (insured)
Beneficiary	Charity	Charity
Can the beneficiary be changed after issue?	No	Yes
Access to cash value (if any)	No	Yes
Tax credit[4]	$4,584 in each year premium is paid. This accumulates to $276,893 at LE (assuming 2% compound reinvestment growth).	Although the donation is $1 million, only a portion may be claimed according to the taxable income[3] of the client in the year of death and the immediately preceding year. Assuming death at age 85, this client's income is sufficient to claim $450,000 ($375,000 in the year of death and $75,000 in the preceding year). $550,000 remains unclaimable. This results in a tax credit of $186,979.

Want more ways to rethink?

Sun Life's rethink series urges you to rethink the way you view our products, and other areas of interest. Visit rethink on sunlife.ca/consulting to find more thought-provoking topics.

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