CLU ADVANCED LEARNING SERIES

CASE STUDY: CHARITABLE GIVING

Advocis

Case Study: Charitable Giving

Learning Objective

Identify the client's charitable giving objectives and discuss alternatives for planned giving.

Case Study: Charitable Giving

Question

Suggest three techniques that Mildred could employ to meet her objectives.

References

257 Advanced EstaPlanning Study Guide (Section 2.2)

Wealth Planning Strategies for Canadians, 2019 Edition (Chapter 24)

Estate Planning with Life Insurancete, 6th Edition (Chapter 9)

Case Study: Charitable Giving

Solution

Mildred could gift the stocks (or part thereof) to the charity of her choice and receive a tax receipt of $200,000, with no capital gain to report. This gift will result in a current tax credit. Alternatively, she could retain the stock during her lifetime and gift it to charity via her will, with the same tax consequences, albeit this would not provide the current tax relief that she is seeking. The taxable capital gain on the disposition of the publicly listed shares, when donated, would be zero.

Case Study: Charitable Giving

Solution, continued

Mildred could gift the bird sanctuary to the province and claim its $60,000 FMV as a charitable gift, resulting in a current tax credit. Since the sanctuary is likely to be categorized as environmentally sensitive property, as with the publicly traded shares, she would likely have to report no capital gain as a consequence of the gift. Alternatively, she could retain the sanctuary during her lifetime and gift it to charity via her will, with the same tax consequences, albeit this would not provide the current tax relief that she is seeking.

Case Study: Charitable Giving

Solution, continued

Mildred could gift the life insurance policy to charity now and would receive a tax receipt for its fair market value of $24,000. The gift would give rise to a $24,000 charitable receipt and a current tax credit. However, this would be partially offset by having to pay tax on the policy gain of $6,000 ($14,000 csv less $8,000 ACB). If she continued paying premiums after gifting the policy she could also claim the annual premium paid as a charitable gift.

Case Study: Charitable Giving

Solution, continued

Mildred could name a charity as the beneficiary of her life insurance policy. Her estate would receive a $50,000 charitable receipt. Assuming her estate applies and qualifies as a general rate estate (GRE), the donation tax credit may be claimed on her terminal (final) return, the return for the year prior to Mildred's death, the estate's current return, any prior estate return, or may be claimed by the estate in any of the next five years.

Case Study: Charitable Giving

Solution, continued

For any amount of the charitable receipt that Mildred cannot claim currently, she is permitted to carry the balance forward and claim in any of the next five years.

Note that Mildred's claim for charitable donations is limited to 75% of her net income in any year that a claim is made, while a 100% may be claimed in the year of death or carried back one-year to the year immediately prior to death.