Case Study: Charitable Giving

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

The Facts

Mildred is a 62-year old widow with no dependents — children or grandchildren. Her husband passed away last year, leaving her all of his assets. She sold their jointly owned home and used the net proceeds to purchase a condominium, which she hopes to be able to retain as her residence for life. At present, her assets consist of the following:

Asset	Fair Market Value	Adjusted Cost Base	Annual Income	Description
Publicly listed common stocks	$200,000	$120,000	$1,000	Growth Stocks
Corporate Bonds	$250,000	$210,000	$15,000	8 years to maturity
Cabin	$120,000	$60,000	N/A	Fairly remote area of B.C.
Bird Sanctuary	$60,000	$15,000	N/A	Adjacent to cabin
$50,000 Life Insurance Policy	$24,000	$8,000	N/A	Whole Life Non-Par (cash surrender value $14,000)
Condominium	$280,000	$280,000	N/A	B.C. Interior
	$934,000		**$16,000**	

With her and her husband's employment and government pensions, and interest and dividends from the securities, Mildred has an annual income of roughly $85,000 — enough to put her in a 31% marginal tax (federal & provincial combined) bracket. As the $1,000 per year she receives from the stocks is nominal and sporadic, and their growth potential is moderate at best, she does not really care about them; but she counts on the $15,000 annual bond interest to help maintain her standard of living.

Advocis

Mildred would like to retain the cabin as her “emergency fund” but is no longer able to get out to the bird sanctuary regularly (it was her and her husband’s lifelong hobby). She would prefer to turn it over to the provincial government to maintain since the land is considered to be ecologically sensitive. She obviously does not need the life insurance protection — there is no one to protect — and would like to explore ways to benefit her church and the Cancer Society (cancer was the cause of her husband’s death) today while also reducing her current taxes, and thereby improving her current net income.

Question

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

Reference

- *257 Advanced Estate Planning Study Guide (Section 2.2)*
- *Wealth Planning Strategies for Canadians, 2019 Edition (Chapter 24)*
- *Estate Planning with Life Insurance, 6th Edition (Chapter 9)*

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.

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.

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.

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.

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.