

## **CHARITABLE GIFT ANNUITY**

The principle benefit of a charitable gift annuity is that it not only provides the donor with a guaranteed level of income for a set number of years, or for life, it also provides an immediate gift to charity – all from the same capital source. And if set up properly, a charitable gift annuity can also prove to be a very tax-efficient way to receive retirement income as the annuity payments can be received tax-free.

A charitable gift annuity works in the following manner:

- The donor give a lump-sum donation to a charity with the understanding that the charity will provide a fixed amount of income back to the donor over a specified term, or for life.
- The donor receives a tax receipt equal to the amount that the gift exceeds the total expected annuity payments as determined by the CCRA. If the amount donated is greater than the total expected annuity payments, all the annuity payments can be received tax-free
- The difference between the cost of purchasing the annuity and the amount of the original donation is then set aside for the charity's immediate needs

### **Advantages**

The income received by the donor is tax-free for as long as the annuity is in force, or for life. And because it's tax-free, there will be no impact on income-tested government benefits like old age security and tax credits. What's more, unlike traditional interest-bearing securities, the income from a charitable gift annuity can be guaranteed for life.

- The donor can receive an immediate donation receipt if the amount of capital given to the charity is less than the total amount of expected payments
- With an annuity, there is no need to pay for ongoing investment management services or administration fees
- A charitable annuity allows the donor to give during their lifetime rather than postponing the gift until death.

### **Issues to Consider**

Once a charitable annuity is established, they are irrevocable.

### **Example**

Mrs. Smith, age 71, has \$90,000 she'd like to give to her favourite charity and wants to ensure she has some income to help provide for living expenses. According to her calculations, \$5,000 per year will be enough. Based on CCRA guidelines, a 71 year-old woman has a life expectancy of 17.1 years. Therefore, her total expected income is \$85,500 (17.1 years x \$5,000). Since she is donating \$90,000 and is expecting to receive back \$85,500, the amount of the donation is \$4,500. Also, since the amount she is expected to receive is less than the amount she donated, the amount she receives is considered a return of capital, and as such, is not taxable. This is true even if she lives longer than 17.1 years and actually receives more than \$90,000.

The cost of the annuity is shown as an illustration only. Seek financial advice from a qualified professional for your specific situation.

### **Tips**

- The tax receipt that the donor receives will be equal to the amount by which the gift exceeds the total expected number of annuity payments as determined by life expectancy tables authorized by the CCRA. Couples can consider purchasing a joint and last survivor annuity
- Donors with excess capital can consider investing a portion of the annuity payments received into a life policy to provide for capital replacement after death
- Charitable annuities are considered most advantageous for those 70 and older.