

“Leave A Legacy” Giving Guide For More Information

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This guide has been prepared as a reference of various options and tax benefits available when giving to a charity.

***WE ADVISE ALL POTENTIAL DONORS TO SEEK
INDEPENDENT COUNSEL WHEN MAKING THESE DECISIONS***

The Foundation will be pleased to work with you and your advisors in arranging a gift to the L.D.M.H. Foundation.

“Not what we would, but what we must
Makes up the sum of living;
Heaven is both more and less than just
In taking and in giving.”

Richard Henry Stoddard

ABOUT THE HOSPITAL FOUNDATION

The Leamington District Memorial Hospital Foundation exists to financially support the acquisition of medical equipment and the expansion of facilities at Leamington District Memorial Hospital.

Through active solicitation and recognition of donations, the Foundation links the community with the Hospital through their fundraising efforts.

The Foundation has its own Board of Directors, comprised of both community representatives and active Hospital Board Trustees.

'LEAVING A LEGACY'

The Leamington District Memorial Hospital Foundation's, "Leave A Legacy" program provides you with the Opportunity to leave a legacy of health care in your community.

Not only can giving be personally satisfying, there are numerous financial benefits that can be gained through bequests and other options.

Revenue Canada has recently made planned giving more favorable to Canadians wishing to contribute to their favorite charities. Tax effective planned giving is fast becoming an efficient way to transfer a gift to your favorite charity while receiving a tax credit for your donation.

While the possibilities are many, you have the flexibility to determine a strategy best suited to your individual needs.

The most common giving method Canadians use is simple cash gifts.

Advantages

Gifts of cash can easily be donated to charities in response to fundraising appeals. The immediate advantage to donating cash is that it is easy to provide, involves little in the way of planning and the charity receives an immediate benefit.

Other Positives For the Donor ...

- No costs for the donation
- No future obligations
- The donor receives a tax credit

Positives For the Charity...

- Immediate access to funds
- The gift is easy to use.
- It can be used as necessary

Issues to consider

Cash donations may not be the most tax-advantaged way for donors to give. The donor has little input for its use. A cash gift lowers current income and savings rather than deferring the payment to a future date. This can affect the amount that many donors can afford to give.

For individuals looking to leave a lasting legacy after their deaths, a more planned approach is recommended. This way, the donor can ensure they maximize the benefits to the charity and receive significant tax and estate benefits of their own.

Example:

Mr. Smith has \$400.00 of donations and Mrs. Smith has \$100.00 of donations. If they claimed them separately, they would receive a federal credit of \$106.00 ($\$200 \times 16\% + \$200 \times 29\% + \$100 \times 16\%$). However, if they claimed all the donations on one tax return, they would receive a federal credit of \$119.00 ($\$200 \times 16\% + \$300 \times 29\%$).

Tips

Ensure that the organization is a registered charity by asking for their registration number.

Married and common law couples can pool their donation. This will help avoid having two \$200.00 "thresholds" and maximize their tax credits.

Defer claiming smaller amounts and carry them forward where they exceed \$200.00 and maximize their tax advantage.

Advantages

They can provide for a simplified means of transferring property from the donor to a charitable organization. The fair market value of the asset that is being donated is determined and a tax receipt is issued to the donor based upon the value of the underlying gift.

To qualify as a gift in kind, the asset must be a donation of tangible property, and not a service. Assets that commonly qualify are:

- Stocks, bonds, and other publicly listed securities.
- Real estate and other capital property.
- Certified cultural property.
- Ecological property.
- Depreciable property such as equipment.
- Other assets of discernable value like the inventory of a business, or a license.

Issues to Consider

The donor must pay tax on 50% of any capital gain realized in the year of disposition (special rules apply for donations of publicly traded securities). It is important to seek professional tax advice before donating gifts in kind.

Donating Publicly Traded Securities

CCRA guidelines provide special tax benefits for certain types of property. The most notable of these would be the donation of publicly traded securities like stocks, bonds, mutual funds and segregated funds. Normally when transferring the ownership of these assets to a charity, the donor would have to pay tax on 50% of the capital gains realized from the assets' appreciation in value. But under a special incentive program introduced in 1997, the capital gains inclusion rate is cut in half to 25%. In other words, any taxes owing from the disposition of publicly traded securities will be 50% less than if the donor had sold the property to make a cash donation.

Tips

Many gifts have an objective fair market value. For example, publicly traded stocks, mutual funds and segregated funds usually have a market value that is listed daily. For assets that do not have an objective fair market value, it may be necessary to obtain an appraisal. For gifts valued at under \$1,000.00, generally that CCRA will accept the charity's assessment of the fair market value of the gift. For gifts whose estimated value exceeds \$1,000.00, a qualified third party should be consulted.

The donor can elect to dispose of the proceeds at a value not greater than the fair market value, and not less than the adjusted cost base. The tax receipt received by the donor will reflect the amount elected. This could be done for gifts of appreciated property other than publicly traded securities such as artwork, real estate, and privately held

companies, to reduce the tax paid on the capital gain.

There may be restrictions as to the type of property that can be accepted.

The above is for illustration only. Please speak with your advisor when considering your own situation.

For donors planning to give larger amounts, a bequest has traditionally been a popular way to give. The structure of the bequest is usually drawn up by a lawyer and settled after death through the services of the executor. Before proceeding seek the services of an experienced estates lawyer.

Advantages

Bequests are a flexible giving option. Assets allocated to the charity within a will remain under the control of the donor until death. In addition, the gift can be revoked at any time by simply changing the will. Furthermore, the gift can take on many forms: real estate, proceeds from an insurance contract, cash, a defined percentage of an estate – the variations are endless.

An additional advantage is that there is the potential to eliminate or reduce any capital gains realized on the disposition of the asset.

Issues to Consider

Without clear instructions, the CCRA may view the executor as having too much discretion. This means that the CCRA could view that the gift was made by the executor in the name of the donor's estate and therefore, cannot be claimed as a donation on a deceased's final tax return but instead claimed only by the estate.

Surviving dependants could challenge the will in court, potentially annulling the donor's original intentions. If the donor of the estate owes money at the time of death, a creditor could establish a legal claim on remaining assets held by the estate. Probate and estate administration fees may absorb a considerable percentage of the estate's value before it moves on to its rightful heirs.

- There is no tax savings provided to the donor during life.
- Assets are not donated to the charity until after death
- The donor will not witness the benefits their gift will provide

Tips

- Ensure that the amount of the gift and the name of the charity are clearly stated within the will
- The donor should regularly review their will and ensure that the charities chosen to receive funds continue to exist and retain their official charitable status.

Donating a contract during life

If you are looking for alternative ways to give, leveraging the benefits of insurance can be a very effective way to donate. The gift of a permanent life insurance policy during life, for example, provides donors with an affordable means to make a large contribution. Here's how it works:

- The donor arranges with a charity to purchase a life insurance policy based on the donor's life.
- The charity is named as the owner of the contract, and the beneficiary of the proceeds upon the donor's death.
- The donor then makes regular payments to the charity or to the life insurance company to make the premium payments.
- Upon the donor's death, the proceeds of the policy pass directly to the charity.

There is also the option of transferring an existing policy to a charity. The donor transfers ownership of the existing policy to the charity while naming it as the beneficiary of the contract. In return, the donor receives a tax credit based on the cash surrender value of the policy. The donor may have some income to include as the policy is treated as having been disposed of.

Advantages

The advantages of giving the proceeds of an insurance contract to a charity makes this option stand out when compared to other alternatives. Firstly, it can provide individuals with an affordable means to leave a very substantial gift to charity. Secondly, because the insurance contract is owned by the charity, it is not considered part of the donor's estate. This means that the proceeds will pass directly to the charity upon the donor's death, without the possibility of the transaction being contested by creditors or heirs. And finally, because the charity is deemed to be both the owner and beneficiary of the policy, the donor can receive donation receipts for the premiums paid on the insurance contract during their lifetime.

Issues to Consider

Once the ownership is transferred to the charity, it cannot be revoked. Another important consideration is the long-term commitment that is required on the part of the donor. The policy premium must either be "paid-up" front or premiums must continue to be paid.

Donating proceeds upon death

Donating the proceeds of life insurance upon death is another planned giving option accomplished by naming the charity as the beneficiary of the policy. But unlike donating the proceeds from an insurance policy during life, this option provides donors with the ability to remain control over the eventual proceeds until death.

Advantages

The donor will retain control over the policy – during their lifetime. The donor can access the surrender value of the contract, or designate a new beneficiary at any time. When the donor dies, the proceeds of the policy will be paid directly to the charity, bypassing probate and estate administration fees. A charitable tax receipt equal to 100% of the policy's value will be issued to the donor. The executor can either claim this on the deceased's final tax return or, if necessary, carry back any unused portion to the previous year.

Please Consider

Because the donor retains control over the policy, they will not receive any tax relief during their lifetime.

Individuals who would like to donate assets to charity without affecting the value of the estate left to their heirs, wealth replacement insurance is becoming a popular option.

How it works:

- The donor wants to donate an asset to a charity without affecting the value of the estate left to their heirs
- To help offset the gift to charity, the donor purchases a life insurance policy based on their life; the donor's heirs are named as beneficiaries
- Upon the death of the donor, the heirs receive the proceeds of the policy in cash, replacing the asset donated to charity.

Advantages

Wealth replacement insurance provides a number of benefits when completed to leaving other tangible assets to heirs. The beneficiaries receive the proceeds of the insurance policy tax-free and in cash. This can be a considerable benefit when compared to leaving tangible assets that may have to be sold in order to pay capital gains tax or real estate, where the asset cannot be easily divided or sold. The transition of assets is simplified by avoiding probate and estate administration fees. Last of all, the heirs will receive the proceeds in a timely manner – a significant benefit to consider during their special time of need.

Issues to consider

Due to fluctuations in the market value of an asset, the value of the policy may be less than the value of the asset donated to charity.

Tips

- Purchase a life insurance policy with an increasing death benefit, the value of the policy can increase over time. This could help compensate the heirs for the increasing value of an asset that is donated to charity.
- If the donor has a spouse, they can reduce the cost of the insurance premiums by purchasing a joint second to die policy.

A charitable remainder trust may prove to be an attractive planned giving option if the donor is looking to secure both income and meaningful tax relief during their lifetime.

Working through trust and estates lawyers, a donor establishes a charitable remainder trust by transferring property to a trust. The donor is considered to have disposed of the property to be transferred to a charity at some later date, usually upon the death of the donor. Once the charity is named as the beneficiary of the trust, it cannot be removed or revoked.

After death, the assets are then passed on to the designated charity.

Advantages

It can provide significant tax relief during the donor's lifetime. Because charitable remainder trust tends to be used for larger charitable donations, the tax credit issued back to the donor is often of considerable value.

They can provide an additional source of income. Once assets are donated to the trust, any income generated can be paid back to the donor.

Charitable remainder trust also allows the donor to retain control and use of the assets within the trust. By retaining this control, the donor can find comfort knowing that they still have a say in how the trust's assets are managed.

- Upon the death of the donor, assets held within the trust will not be subject to probate or estate administration fees
- The donation cannot be contested by dependants or other beneficiaries of the estate

Issues to Consider

Because charitable remainder trusts can be complicated and require that expertise of a lawyer, they are commonly expensive to set up and maintain. Experts suggest that donors only consider this option when planning gifts in excess of \$200,000.

Once a charity is named the beneficiary, the donor cannot change their mind.

The income from the investments held within the trust is taxable in the donor's hands until death. However, this shortcoming must be weighed against the considerable benefit that the initial tax credit provides.

Because of the difficulty in valuing the "residual interest" of some assets, professional advice should be sought before choosing the assets to be transferred into the trust.

Tips

- A donor should obtain a professional evaluation of the trust's assets to determine its residual value
- The donor should only consider allowing the proceeds of the trust to pass on to charity after both spouses die.

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 gives 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.

Donating Registered Plans (RRSP's, RRIF's)

Leaving all or part of their retirement savings to charity can be an attractive option. Upon the death of the individual, the proceeds of the registered plan are paid out to the charity. The executor of the donor's estate will include the full balance of the registered plan in the deceased's final tax return and will receive a charitable receipt from the charity for the same amount. This amount can be used on the donor's final tax return, or carried back to the year prior to the year of death.

Advantages

The donor retains complete control over the assets until death. This means that even if the individual has worked with a charity to arrange for the future transfer of assets, the donor can still revoke that decision by designating a new beneficiary. In addition, the funds in the registered plan are available to the individual for use, if needed, in their retirement years.

Issues To Consider

The value of the registered plan is included as income in the year of death. However, the tax owing on this amount is usually eliminated by the value of the donation credit.

Please consult a tax professional before proceeding.

Example

Mr. Smith had an RRSP worth \$100,000. Since he had no dependants, he names his favourite charity as the beneficiary of his RRSP.

When Mr. Donor passed away in June, his income for that year was \$75,000 (not including the RRSP). Mr. Smith is taxed on his marginal income at 43%. In this case, the entire tax bill from the RRSP inclusion is offset by the tax savings from the donation. If Mr. Smith had other donations exceeding \$75,000, the executor may not be able to use the entire \$100,000 in the year of death, but could potentially carry it back to the preceding year.

Mr. Smith's Final Return

Income from RRSP	\$100,000
Donation amount	\$100,000
Tax on income @ 43%	\$43,000
Tax savings from donation	\$(43,000)
Tax (savings)/cost	\$ NIL

Normally, when an individual has no spouse or minor or infirm dependants, the value of the registered plan is included fully in the final tax return and creates a liability. If the plan is donated to charity, however, the value of the donation receipt will offset the tax on the income inclusion. So instead of \$57,000 going to the will's beneficiary and \$43,000 going to the CCRA, the entire \$100,000 can be given to the charity.

Tips

- Donors must designate the charity as the beneficiary of the registered plan's assets.
- Donors should consult a tax planner to ensure that the benefit of the gift offsets the final tax bill upon death.
- Donors with heirs should discuss their intention to give all or part of their plan assets to a charity upon death.
- The limit for donation receipts is increased upon death to 100% of net income in the year of death and 100% of net income in the preceding year. If the donor is planning on leaving a substantial amount, steps should be taken to ensure that the estate will be able to use the entire donation receipt.
- For individuals who wish to leave the proceeds of their plan to a charity without reducing the value of the estate left to heirs, wealth replacement insurance can help make up the difference.

Let Us Know If We Can Help

Please do not hesitate to give us a call if you wish to discuss anything you have read in this guide. We will be happy to help.

Planned giving of the type mentioned in this guide can be rewarding for you, your family, the hospital and your community. But it is a decision that should not be made quickly.

Please talk to your financial advisor and explore which giving method may match your own individual needs and requirements. It is important that you & your family feel completely comfortable with your final decision.

Thank you for your loyal support of your community hospital. Whatever contribution you have made to support Leamington District Memorial Hospital it helps assure that we all "LEAVE A LEGACY" of healthcare in our community.

Thank you From The Leamington Hospital Foundation Board of Directors.

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