



UNIVERSITY HOSPITALS
KINGSTON FOUNDATION
Our Hospitals. Our Health. Our Future.

Tax Examples Guide

October, 2007

Introduction

Canada's taxation laws provide attractive benefits for those considering a planned gift. You can receive an immediate income tax credit, minimize or eliminate capital gains taxes, and, in some cases, increase the income on your investments. Certain giving techniques allow you to pass your estate on to your family, potentially eliminate both probate and income taxes at death, and still make a significant charitable gift. Whatever strategy you and your professional advisors choose, gift planning is a rewarding way to make a contribution to your community.

Bequest – is a gift of money or property that you leave to the University Hospitals Kingston Foundation or other charity in your will. You may choose to leave a specific amount, a residual portion of your estate, or, a gift that is given only after certain other commitments and conditions are met. Gifts by bequest will receive a donation receipt that may be claimed by your estate up to 100% of net income on your terminal tax return with a one-year carry back of any excess tax credit, also of 100%.

An example: In her will, a widow leaves \$100,000 in cash to University Hospitals Kingston Foundation and the remainder of her estate to her two children. Assuming the net income on her final income tax return is large enough for the entire bequest to be claimed for a charitable tax credit, the bequest will result in a combined federal and provincial tax credit of \$46,400 (46.4% tax credit in Ontario).

Charitable Gift Annuity – provides you with guaranteed, continuous income throughout your life, preferred tax benefits on that income, and often, a higher return than similarly guaranteed income investments can offer. You will be entitled to a charitable donation receipt for the gift portion or your charitable annuity at the time the gift annuity is set up. Your annuity will be reinsured through an insurance company. This plan is of particular interest to people in their 70s or older who are prepared to make an irrevocable gift to University Hospitals Foundation.

An example: A widow, age 80, contributes \$30,000 for an annuity to University Hospitals Kingston Foundation. She receives a lifetime annuity of \$2,481 (8.27%) each year, of which \$2,472.53 is tax-free, and a one-time donation receipt for \$7,500.00, which results in a combined federal and provincial tax credit of \$3,480.
**(Based on Interest and Life Expectancy Rates when the gift is established.)*

Securities – If you currently hold appreciated stock with capital gains, and are also making donations to charities, you should consider donating the stock that has an accrued gain instead of donating cash. Current tax rules require taxes to be paid on 50% of capital gains realized when securities are sold. However, if the securities are donated to a charity, the capital gain is reduced to 0%. This reduction makes it far more attractive to donate appreciated securities rather than sell them and donate the proceeds. If you are in this situation, you will receive a donation receipt for the full market value of the securities on the date University Hospitals Kingston Foundation receives your gift.

An example: A widow donates listed stock valued at \$10,000, which she purchased for \$2,000. The capital gain is \$8,000, of which 0 percent is taxable and her contribution results in a tax credit of \$4,640 (assuming a 46.4% combined tax rate).

If she had sold the stock and donated \$10,000, she would still receive the tax credit of \$4,640, but she will be taxed on 50% of the gain, will result in taxes payable of \$1,856 (assuming a 46.4% combined tax rate). This would reduce her tax credit to \$2,784.

Gift of Life Insurance – allow you to turn a small gift now into a substantially larger gift in the future.

- Perhaps you own a paid up policy that you no longer require and would like to use it to make a thoughtful gift to University Hospitals Kingston Foundation. You would receive a one-time donation receipt for the cash surrender value of the policy.
- By making the University Hospitals Kingston Foundation the owner and beneficiary of an existing life insurance policy you will receive a charitable receipt for the premiums you continue to pay, while extending valuable support to us in the future.
- You may purchase a new policy, transfer ownership to the University Hospitals Kingston Foundation, and receive a donation receipt for any future premiums as they are paid.
- By naming the University Hospitals Kingston Foundation the beneficiary of a life insurance policy, you continue to own the policy but your estate will receive a donation receipt for the face value of the policy upon your death.

An example: A couple in their 60's contributes \$100,000 cash* to University Hospitals Kingston Foundation. This will result in tax savings of \$46,400, assuming a 46.4% combined tax rate. They use \$25,000 of the tax savings to pay for a life insurance policy on the husband's life naming their children as the beneficiaries. As a result, the University Hospitals Kingston Foundation receives \$100,000 now, their children receive \$100,000 tax free in the future, and the couple keeps \$21,400 that otherwise would have been paid in taxes. * (subject to a maximum of 75% of net income per year) *(Based on Interest and Life Expectancy Rates when the gift is established.)*

Gift of RRSP/RRIF Accumulations – provides you with an excellent way to make a gift while offsetting potentially significant taxes at death. These gifts can be made directly by simply completing the beneficiary form available through your financial institution without changing your will. This method allows the proceeds to remain outside of your estate

and save on probate fees, and allows your estate to benefit from the tax credit.

An example: A single woman dies at age 75 and leaves \$30,000 of her RRIF funds to University Hospitals Kingston Foundation, by beneficiary declaration through her financial institution (no longer required to go through will and estate). The tax on her RRIF funds (46.4% combined rate) is \$13,920 and the tax credit on the \$30,000 donation is \$13,920, so the tax credit offsets the tax payable.

Gift of Residual Interest – is a gift that you give in the future, but you retain its use throughout your lifetime. A Gift of Residual Interest includes personal property, such as a residence, land, or works of art. Such a gift requires that the property be irrevocably transferred to University Hospitals Kingston Foundation. You are then entitled to a charitable donation receipt for the discounted residual interest (value in today's dollars of what University Hospitals Kingston Foundation expects to receive from your gift at your death.)

Charitable Remainder Trust – can be established with investment assets currently at your disposal. You continue to receive the income from the assets, and at the same time receive a charitable tax receipt for the present value of the residual interest owned by the University Hospitals Kingston Foundation. Upon your death, or the death of your beneficiary, the remainder trust capital passes to University Hospitals Kingston Foundation. With a Charitable Remainder Trust, your trust property will not be subject to probate fees or public disclosure.

An example: At age 70, a widower wants to donate to University Hospitals Kingston Foundation, but he cannot afford to give up any of his investment income. He transfers property worth \$350,000 to a charitable remainder trust, from which his taxable income will be approximately \$17,500* a year for his lifetime. When he funds the trust, he receives a donation receipt for \$177,121*, which, assuming a 46.4% tax credit, will translate into tax savings of \$82,184. After his death, the trust principal will be used to create the endowment. **(Based on Interest and Life Expectancy Rates when the gift is established.)*

Tax Rules

You can claim tax credits for gifts made to University Hospitals Kingston Foundation of up to 75% of your net income in any given year. Should you make a substantial gift that exceeds your net income, you may carry forward the excess for up to 5 years. A federal tax credit of 15.25% is available for gifts of \$200 or less, increasing to 29% of the excess over \$200. Once the provincial and surtax are added to the federal tax credit, the end result is an overall tax credit of approximately 46.4% (in Ontario, this may vary by province).

Disclaimer

The details outlined here are for information purposes only and should not be construed as offering tax advice. In all cases we recommend independent advice from your professional advisors prior to finalizing a charitable gift or acting upon the information provided herein. Information as of October, 2007.