

CHARITABLE GIFT ANNUITY

Ma and Pa Philein (age 70) are conservative investors and have some of their money invested in a GIC (Guaranteed Income Certificate). They are currently living off of the interest that the GIC produces and have included in their will a bequest of the GIC to their favourite charity upon their death.

The Philein's have a \$100,000 GIC and based on current interest rates (the 5 year rate is 4.25%) their income is \$4,250 gross. The government taxes all of this income and assuming their tax rate is at 39%, the Phileins will pay \$1,657 in taxes, leaving them \$2,593 to spend. Their plan is to donate the \$100,000 to charity in their will.

An alternative for the Phileins is to consider the benefits of a Charitable Gift Annuity. This type of annuity has been granted preferred tax treatment by CRA (Canada Revenue Agency). The annuity income that is paid out is considered in part return of capital and in part interest which effectively reduces the income taxes the Phileins will pay.

The preferred tax treatment of the Gift Annuity allows the Phileins to make an immediate donation to the charity of their choice in the amount of \$25,000. The balance of the money, \$75,000 is used to purchase a joint-life annuity which, at current annuity rates, will generate an income of \$5,381. Due to the previously mentioned preferred tax treatment only \$1,484 is taxable. At 39% tax rate the amount of tax owing is \$578, therefore leaving the Phileins a net income of \$4,803. This compares very favourably to the GIC after tax income of \$2,593. If we stopped the process at this point the Phileins would have made a charitable donation immediately of \$25,000 and increased their spendable income from \$2,593 to \$4,803. Additionally, the \$25,000 donation creates an immediate tax credit of \$12,500 which can be used against other pension or RRIF income.

The other difference in the two scenarios is that the GIC has an estate value of \$100,000 whereas an annuity has no estate value. In order to carry on the Philein's wishes of a donation of \$100,000 upon their death we use some of the increased income derived from the annuity to purchase a joint life insurance policy of \$100,000. The insurance cost is \$2,270 per year. The premium would be paid from the \$4,803 annuity income, therefore leaving the Phileins with \$2,533 to spend.

By using a gift annuity the Philein's are able to make an immediate charitable donation of \$25,000 which generates a tax credit of \$12,500, keep their same after tax income and continue to make a charitable donation at death of \$100,000. They also reduce the OAS clawback and probate fees at death.

\$100,000	GIC	Insured Gift Annuity
Gross Income	\$4,250	\$5,381
Taxable Income	\$4,250	\$1,484
Taxes @ 39%	\$1,657	\$578
Net Income	\$2,593	\$4,803
Insurance Cost	\$0	\$2,270
Net Spendable \$	\$2,593	\$2,533
Donation Now	\$0	\$25,000
Tax Credit @ 50.0%		\$12,500
Donation At Death	\$100,000	\$100,000
TOTAL LEGACY	\$100,000	\$125,000