

# Cambridge & North Dumfries Community Foundation Community Foundation: Professional Advisors Reference Manual

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## Section 1- Introductory pages

Since 1998, the Cambridge & North Dumfries Community Foundation has been helping individuals, families and corporations meet their philanthropic goals and get the most out of their gift giving. The Community Foundation is a volunteer-driven, public charitable foundation serving the thousands of people who share a common concern – improving the life of Cambridge & North Dumfries.

The Cambridge & North Dumfries Community Foundation connects philanthropy to community needs through endowment building and donor service, grantmaking and community leadership in the areas of the arts and culture, education and training, environment, health and social services, heritage, multiculturalism and recreation. We are dedicated to enriching our communities through leadership in philanthropy and stewardship of a lasting legacy.

We do this by

- *Endowment building and flexible, comprehensive donor services*
  - Pooling the charitable gifts of many donors to create permanent, income-earning endowment funds - a nest egg that will always be there to benefit communities.
  - Connecting donors with the issues and organizations that matter most to them. Offer a variety of funds to meet donors' charitable goals; use their insight and experience to help donors have maximum impact.
- *Broad and effective grantmaking*
  - Using the income earned by invested funds to give grants to a wide range of community groups; the original investment is left to grow over time.
- *Inclusive community leadership on issues of broad community concern.*
  - Working with the entire community, bringing people together from all sectors to identify and address local issues.

All kinds of people give many types of gifts – cash, real estate, stock, artwork and insurance. Flexibility is key. Donors can choose to support their hometown broadly or designate a favourite cause or charity. Some charities also place their endowment funds with community foundations in order to benefit from greater returns on their investments.

So who benefits? The whole community. Community foundations benefit everyone by promoting the value of charitable giving. We provide grants to every sector - from health, education, and social services, to youth, the arts and environment. The responsibility of your Community Foundation does not end with the making of the grant. The Foundation conducts follow-up assessments to determine whether the effectiveness and utilization of the grant warrants further consideration of funding. Our support may also include helping charities manage complex donations, linking groups with common goals, and connecting organizations with potential donors.

Community foundations have decades of experience and a proven track record of helping Canadians make an impact in their communities – now and for future generations. Winnipeg established Canada's first community foundation in 1921. Today, community foundations are one of the country's fastest-growing charitable movements. The Cambridge & North Dumfries has grown steadily since 1998 to more than \$2.8 million in total assets. Today we are just one of more than 153 community foundations across Canada.

The Foundation is pleased to work with potential donors through their financial advisors. As a professional advisor in our community, you are in a unique position; not only to serve the charitable needs of your clients, but also to significantly affect the quality of life enjoyed in our community, long into the future. Funds established today with the Cambridge & North Dumfries Community Foundation will provide a critical source of income in the years ahead to address the constantly changing needs of our community.

*We are grateful for the opportunity to work with you in serving your clients' needs. If you have any questions or comments concerning the Cambridge & North Dumfries Community Foundation or any of its programs, please don't hesitate to contact Jane Neath, Executive Director, 519-624-8972.*

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Jane Neath, Executive Director, Cambridge & North Dumfries Community Foundation

*"The future belongs to those who believe in the beauty of their dreams." - Eleanor Roosevelt*

## **Enriching Our Communities Forever**

## **Section 2 - Types of Funds**

A gift to the Cambridge & North Dumfries Community Foundation can be used in a variety of ways. Many gifts are given unrestricted by a donor and used by the Foundation annually for *current needs*; other gifts are restricted by the donor for *specific projects or program purposes*.

Increasingly, informed donors are choosing to designate their gifts for *endowed purposes* and the Cambridge & North Dumfries Community Foundation welcomes contributions in support of any of the following endowed funds:

### **Community Fund – Unrestricted**

Discretionary funds offer the greatest amount of flexibility to the foundation in responding to the immediate and changing needs of the community. Donors place no restrictions on the use of the funds and rely on the Board of Directors to grantmaking decisions that address current community priorities and needs.

### **Field of Interest Fund**

These funds allow the donor to designate a specific area of interest (i.e. education, children's needs, the arts) in which charitable grants will be made. The Board of Directors uses its discretion in selecting the most appropriate recipients, year by year.

### **Designated Fund**

These funds are established to benefit specific charitable organizations named by the donor. The earnings from these funds are distributed to the designated organizations on an annual basis.

### **Agency Endowment Fund**

Charitable organizations may establish permanent endowed funds to provide a source of annual income for operations or programs.

### **Donor Advised Fund**

A donor advised fund allows the donor or others designated by the donor to make recommendations to the community foundation's Board of Directors regarding proposed charitable distributions from their fund.

Within any of the areas identified above, a donor may establish a **Named Fund**. Such funds require a minimum gift \$10,000. However donor advised funds require a minimum gift of \$50,000.

## Named Funds

This type of fund allows a client's charitable gift to have a lasting impact on the life and work of our community, while providing the donor(s) with *permanent recognition*, the opportunity to "mark their place in time". Income from the fund will be used to fund existing and/or emerging priorities, as approved by the Grants Committee (or equivalent).

With a minimum gift of \$10,000, funds may bear the name of individuals, families, organizations and/or corporations. Funds can also be named in honour of loved ones, in celebration of others, or in memory of individuals.

Donations to an endowed fund can be financed through an outright gift of cash, appreciated securities, a gift of life insurance, a bequest by will, or other real assets.

Donations may be pledged for payment over a period longer than one year. Generally, at least 20% of the total pledge must be contributed to a fund account each year, and a pledge payment period may run as long as five years.

Donors establishing named endowed funds with the Cambridge & North Dumfries Community Foundation are entitled to published recognition; however, if a donor prefers to remain anonymous, the Community Foundation will recognize this wish.

# Section 3 - Advantages of Giving to The Cambridge & North Dumfries Community Foundation

## Community Leadership and Impact

Community foundations often serve as a knowledge hub in the community – convenors, facilitators and community experts – helping donors target their support to address pressing societal needs and promising opportunities. Your clients will appreciate the opportunities to increase the impact of their philanthropy that will result from combining their support with that of many other donors and funders.

## Permanence & Continuity

The Cambridge & North Dumfries Community Foundation can guarantee the fulfillment of a donor's charitable intent for community-wide purposes in perpetuity. The size of your client's fund can be increased at any time through additional gifts to the capital account during their lifetime, and/or through a bequest by will at death.

## Flexibility

The Cambridge & North Dumfries Community Foundation undertakes a responsibility to ensure that all gifts received and endowed funds established are used for the purposes directed by a donor. Your client will appreciate knowing that should an original purpose of a gift become impractical, unnecessary, or inconsistent with community's realities in the future, the Board of Directors can redirect the use of funds to other similar or related areas of activity where the donor's interests can continue to be most closely realized.

In addition, the Cambridge & North Dumfries Community Foundation can enable donors to direct support from their *donor-advised* funds to different charitable causes over time as the needs of the community and the donor's charitable interests evolve.

## Options for Giving

Your client can fulfill nearly every charitable intention through the programs and services offered by the Cambridge & North Dumfries Community Foundation. We maintain a variety of fund types etc.

## **Investment Expertise**

Your client will appreciate the time and expense saved on the investment of their contributed funds, assured that gifts to the Community Foundation are professionally invested and managed.

## **Professional Management**

Your client will be reassured to know that professional staff at the Community Foundation provide the appropriate administrative and managerial support to a responsible volunteer board and its committees, comprised of leaders drawn from across the community.

## **Recognition and Stewardship**

Funds disbursed from donor-restricted funds are identified to the recipients by the name of the donor(s) that created the endowed fund. Your client can, of course, request anonymity with the assurance and his/her wishes will be respected.

As donors, your clients will also be entitled to receive periodic reports on fund performance, a listing of grant distributions made, updates on the activities of successful grantee organizations and the outcomes produced. Often, it is this information that helps donors make more informed gift decisions in response to future opportunities.

## **Simplicity**

Community foundations offer the convenience of one-stop shopping, simplified record-keeping and tax-return preparations. Donors can time gifts to match cash flow and tax benefits, avoiding the complexities often associated with creating and administering a private foundation.

## **Cost Effective**

The Cambridge & North Dumfries Community Foundation provides an attractive alternative to those considering the establishment of a private foundation. As long as your client's interests are focused on supporting projects approved for funding in our community, our Foundation can produce the results your client is seeking, while limiting the ongoing administrative work and costs that otherwise might be involved. A client wishing to create a fund has simply to contact the Foundation to set up an arrangement that suits his/her needs.

There are no legal fees attached to setting up a fund within the Cambridge & North Dumfries Community Foundation, and we assume all the tax and other reporting responsibilities for the fund. The Foundation will also handle all grant requests, disbursements, receipting obligations and all administrative and financial management requirements for the fund.

### **Attractive Tax Benefits**

The Cambridge & North Dumfries Community Foundation is a *registered charity* that is designated by the Canada Revenue Agency (CRA) as a *public foundation* under Canada's federal *Income Tax Act*. Thus, gifts made at any time will generate a donation receipt and produce important income tax advantages for your client.

## Section 4 - Preferred Gift Types for Community Foundations

### Gifts of Cash and Appreciated Securities

Gifts to the Cambridge & North Dumfries Community Foundation can be made in the form of cash, marketable securities and other forms of tangible and intangible personal property (e.g. intellectual property, rare books, equipment, collections, etc. – virtually all items in a person's possession). A donation receipt may be issued by any registered charity in Canada, based on the **fair market value (FMV)** of the donated property.

#### Outright Gifts of Cash

An outright gift of cash is still the simplest way for your client to give and often is the best way, from the planning viewpoint. Your client's gifts can go to work immediately at the Foundation to address one of the following objectives:

- to meet the current operating needs of the organization,
- to fund a 'flow-through' grant to another qualified charity or
- to create and/or enlarge an endowment.

A donation receipt will be issued to your client for the full amount of the gift, resulting in immediate tax savings for use in the year of the gift.

For example, if your client's combined federal and provincial tax credit equals 45%, a \$5,000 cash gift to the Community Foundation will result in tax savings of \$2,250, so the actual cost of the gift is only \$2,750!

As you may already know, the amount your client may claim in charitable donations in any year is limited to 75% of their net income for that year plus 0% of the taxable gain when appreciated property is donated. Any excess may be carried forward for up to five years.

#### Gifts of Appreciated Securities

Donating *appreciated, publicly listed securities* such as stocks (including employee stock options), bonds and mutual fund units is currently the least expensive way to make a gift. Your client will receive a donation receipt from the Foundation for the fair market value (FMV) of the securities contributed and be required to include in income 0% of the capital gain that would otherwise be

subject to tax. Gifts of securities to a community foundation are equally tax-effective when given today or in the future through a bequest.

In addition, this incentive for giving does not currently apply if the gift is made to a private foundation. It should be noted that funding a gift with appreciated securities is less costly when made to a community foundation than when made to a private foundation. In many situations recently, this has been a deciding factor for donors to give to a community foundation, rather than setting up a private foundation.

For gifts of other types of appreciated property, 50% of the gain will be taxed. In either case, your client's donation tax credit will always exceed the tax on the gain, generally resulting in net tax savings, because 100% of the taxable gain is creditable.

## Gifts Funded with Retirement Savings Plan / Income Fund Accumulations (RRSPs/RRIFs)

Under legislation introduced in the Federal Budget of February 2000, an individual is allowed to directly name a charity as beneficiary of a registered retirement savings plan (RRSP) or registered retirement income fund (RRIF) and have the tax credits available in the year of death.<sup>1</sup> Previously, the funds had to flow through the estate for a donation tax credit to be available, and that in turn meant that the funds would be subject to such things as probate, and payment to creditors.

Further, changes to legislation introduced in the February 2004 Federal Budget propose to handle RRSP/RRIF accumulations and life insurance policy proceeds in the same way as bequests for disbursement quota calculation purposes.

This will allow charitable organizations to endow such contributions, effectively exempting them from the 80% disbursement requirements that otherwise would apply.

### **Benefits of Gifts Funded with RRSP/RRIF Accumulations**

- Effectively allows your clients payments to go directly to the Cambridge & North Dumfries Community Foundation, avoiding the possibility of creditors seizing funds or challenges to the will.

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<sup>1</sup> Canadian Taxation of Charities & Donations, A. Drache. August 2000

- The proceeds of such gifts will be recorded as outright gifts of cash when received, and a donation receipt for the full amount received will be issued to the donor's estate. The resulting donation tax credit will offset tax on the RRSP/RRIF accumulations. Unlike gifts of appreciated capital property, no extra credit will be available to offset taxes on other income.

Your client may specify that the income derived from the investment of the gift may be treated as:

- Unrestricted, so that the Foundation Board may determine each year where the earnings can best meet the highest priority community needs, or
- Restricted to a favourite charity, program or service within the community as designated by the donor (or as advised by others, perhaps the donor's children) in writing.

## Estate Gifts by Will

### How Can an Estate Gift Fund a Donation?

A legally valid will guarantees that your client's estate will be distributed according to his/her exact wishes. For this reason, the will remains the centerpiece of all estate planning.

The most common type of *deferred* planned gift is the charitable bequest. It can be conferred as simply as a written sentence or two in your client's will, or a codicil appended to an existing will document.

Any asset can be used to fund a bequest. It is generally considered best to provide the executor(s) with the power to determine the form in which to settle a bequest – in cash or *in specie* (this allows for gifts to be funded with marketable securities).

A gift to the Cambridge & North Dumfries Community Foundation can be made by way of a specific bequest, or by a bequest of the residue (or part of the residue) of your client's estate, or by way of a bequest subject to the life interest of another.

Estate gifts by will (bequests) to the Community Foundation are eligible for a donation receipt producing a substantial tax credit for application on your client's terminal tax return.

Furthermore, it is quite likely that the entire bequest will be creditable. This is because the donation limit is 100% of income in the year of death, and the 100% limit also applies to any excess carried back to the prior year.

Your client may specify that the income derived from the investment of the gift may be treated as:

- Unrestricted, so that the Foundation Board may determine each year where the earnings can best meet the highest priority community needs, or
- Restricted to a favourite charity, program or service within the community as designated by the donor (or as advised by others, perhaps the donor's children) in writing.

### **Sample Wording for Clauses Used in Wills**

There are many ways to word a charitable gift in a will. Here is some suggested language we hope might help you and your clients describe their testamentary gift to our Community Foundation. Of course, the phrases may need to be adapted to reflect your client's specific interests and circumstances. Wills are often more complex than they appear, and the drafting of a will (or a codicil to an existing will) should be entrusted to experienced accounting and legal counsel, ideally those with estate planning expertise. If your client is considering an estate gift by will to the Cambridge & North Dumfries Community Foundation, please feel free to contact us to discuss the terms of the gift.

### **General Charitable Purposes – Unrestricted in Use**

A gift for "General Charitable Purposes" provides maximum flexibility for the Foundation to support the highest priority needs identified in the community for funding each year.

Gifts designated by your client in this manner will be directed to the Foundation's **Community Fund**.

#### **(a) Fixed Amount:**

"I give (\$\_\_\_\_\_ ) to the Cambridge & North Dumfries Community Foundation, to be treated as capital and invested, and the net income paid to or used for such charitable purposes as the Board of Directors of the Cambridge & North Dumfries Community Foundation may from time to time determine."

**(b) Residue of Estate:**

"I give [the residue] or [# \_\_\_\_ shares of the residue] of my estate to the Cambridge & North Dumfries Community Foundation, to be treated as capital and invested, and the net income paid to or used for such charitable purposes as the Board of Directors of the Cambridge & North Dumfries Community Foundation may from time to time determine".

**(c) Gift upon Death of Named Persons:**

**i. Of Residue**

"Upon the death of the survivor of \_\_\_\_\_ and me, I direct my trustee to give the residue of my estate then remaining to the Cambridge & North Dumfries Community Foundation, to be treated as capital and invested, and the net income paid to or used for such charitable purposes as the Board of Directors of the Foundation may from time to time determine."

**ii. Of a Fixed Sum**

"Upon the death of the survivor of \_\_\_\_\_ and me, I direct my trustee to give (\$ \_\_\_\_\_) to the Cambridge & North Dumfries Community Foundation, to be treated as capital and invested, and the net income paid to or used for such charitable purposes as the Board of Directors of the Foundation may from time to time determine."

**(d) Contingent Bequest:**

"If \_\_\_\_\_ does not survive me by ninety (90) days or dies in circumstances where the order of our deaths cannot be determined, then I give to the Cambridge & North Dumfries Community Foundation the residue of my estate, to be treated as capital and invested, and the net income paid to or used for such charitable purposes as the Board of Directors of the Foundation may from time to time determine."

## **Specific Charitable Purposes**

If specific purposes are to be designated by your client, they should be for charitable purposes reflected in the programs and services promoted by the Cambridge & North Dumfries Community Foundation.

The following clauses would apply to gifts designated by your client for any of the *program-specific endowment funds* described above, or any other program fund maintained by the Cambridge & North Dumfries Community Foundation. For further information, we ask that you contact the Foundation's office for additional assistance in this regard.

**(a) Specific Purposes:**

“I give (\$\_\_\_\_\_ ) to the Cambridge & North Dumfries Community Foundation, to be treated as capital and invested, and the net income paid to or used for [*insert name of particular charitable purpose, program or service*] provided that when in the judgment of the Foundation, the value of supporting the specific purposes or objects hereinbefore designated become significantly diminished, the net income may be paid to or used for such charitable purposes as are, in the judgment of the Foundation’s Board of Directors, as close as possible to my original intent.”

## **Addition to an Established Fund**

Your client (or other contributor) may add to the capital of a fund that has already been established at the Community Foundation, provided that the gift does not alter the stated focus of the existing fund. The exact name and purpose of the fund should be obtained from the Foundation’s Executive Director prior to finalizing the wording in any document. The appropriate wording of the will should be drafted in consultation with a representative of the Cambridge & North Dumfries Community Foundation.

## **Named Funds**

Where the donor wishes a name (the donor’s own name or someone else’s) or another title to be attached to a new fund account financed by the bequest (**note: *minimum gift requirements are required to establish a named fund***), a version of the following sentence may be added in the will:

“The account created by this bequest shall be designated and known as “The \_\_\_\_\_ Fund”.

Where a bequest (or devise) is to be designated as a tribute gift (in memory or honour of another), a form of the following sentence may be added:

“This gift is given to the [Your] Community Foundation in honour/in memory of \_\_\_\_\_.”

## **Avoiding Intestacy**

A residual bequest to the Cambridge & North Dumfries Community Foundation can ensure that your client does not die intestate if all his/her other beneficiaries have predeceased him or her.

Rather than having the estate or a share of it go to remote family relations or the government, your client (as testator/testatrix) can name the Community Foundation as the ultimate beneficiary when, for whatever reason, a gift fails to take effect.

### **Suggested Wording:**

“In the event that any gift made by this will for any reason, fails to take effect, I direct that the property or sum so described as the gift or donation, be given instead to the Cambridge & North Dumfries Community Foundation to be treated as capital and invested, and the net income paid to or used for such charitable purposes as the Foundation’s Board of Directors may from time to time determine.”

### **The “Power to Vary” Clause**

To help ensure that the gifts of all donors are used to maximum potential, and to minimize the chances that purposes for which gifts are made today become redundant, we ask you to advise your clients to consider including a “power to vary purposes” clause in their wills, whenever a designated use for gifted funds is proposed. Such a clause might read as follows:

“If changed circumstances should at some future time make the specified use of this gift (or name of fund) impractical or desirable for the designated purpose, then the Cambridge & North Dumfries Community Foundation Board of Directors is hereby authorized to redirect the use of the funds (or the purpose of the endowed fund), provided that the amended terms of the agreement shall adhere as closely as possible to the donor(s)' original intent for this gift (Fund).”

## **Gifts of Life Insurance**

A charitable gift funded with **life insurance** allows the donor to make a large gift at death through the payment of relatively small premiums during his or her lifetime. Your client can generally tailor this gift arrangement to fit personal financial circumstances and at death, the policy proceeds are usually paid, on a tax-free basis, directly to the Cambridge & North Dumfries Community Foundation. Because death benefits paid under a life insurance policy are not considered part of the estate, the proceeds are not subject to probate fees or legal costs.

Unlike donations made through the will, life insurance is not a matter of public record and hence, the gift may be kept confidential. A waiver of premiums may be included in most policies (for a modest additional payment) to ensure that, in the event of your client’s disability and inability to pay the premiums, the charitable intention under the policy can still be completed.

At the Cambridge & North Dumfries Community Foundation, donors of gifts funded with life insurance are recognized for their generosity *during their lifetimes*, and their decision to fund a *legacy gift* will likely reflect positively on surviving family members for generations.

The proceeds realized by the Foundation on the death of a donor may be used to establish a permanent named fund (**note:** minimum gift requirements apply) and this fund may bear the name of your client (as the donor), his or her family or other entity provided that all applicable criteria are met.

Your client may specify that the income derived from the investment of the gift may be treated as:

- I. Unrestricted, so that the Foundation Board may determine each year where the earnings can best meet the highest priority community needs, or
- II. Restricted to a favourite charity, program or service within the community as designated by the donor (or as advised by others, perhaps children) in writing.

As a donor to the Cambridge & North Dumfries Community Foundation, your client will derive the satisfaction of knowing his/her gift of life insurance will help enhance the quality of life in our community beyond his/her lifetime.

## Option I

### The Community Foundation as Beneficiary (But not Owner) of a Life Insurance Policy

Your client (the donor) names the Community Foundation as beneficiary of the death benefit under his/her life insurance policy. The gift may be underwritten on a single life or a joint “last to die” policy. The donor can either buy a new policy, or redirect the benefits of an existing one. Your client should confer with the appropriate professionals to make sure the beneficiary designation on an existing policy can be changed. Naming the Community Foundation as beneficiary can be done either directly or indirectly:

#### Direct Beneficiary

The Community Foundation can be named directly as the beneficiary in the life insurance policy. New income tax rules will allow your client’s estate to receive a donation receipt for the total policy proceeds received by the Foundation, and this may create a significant donation tax credit.

This donation tax credit can be used to offset taxes owing on the terminal income tax return of the deceased (e.g. Tax on capital gains, accumulated proceeds in registered retirement savings plans (RRSPs) or income funds (RRIFs), etc.)

As a result, this strategy can help leave estate assets intact for the benefit of surviving family members.

### **Indirect Beneficiary**

The policy may name your client's estate as beneficiary of the policy proceeds. Then, your client's will directs that a charitable gift equivalent to the life insurance benefit realized by the estate, be directed to the Cambridge & North Dumfries Community Foundation. Again, the estate will receive a donation receipt that can generate significant tax credits to offset taxes otherwise payable in the year of death and the previous year.

#### **Important:**

Before naming a beneficiary on a life insurance policy, donors and their advisors should determine how income tax receipts will be issued and how future tax credits will be claimed.

## **Option II**

### **The Community Foundation as Owner and Beneficiary of a Life Insurance Policy**

In this scenario, your client makes a gift of the life insurance policy itself. The gift can be easily arranged directly through his/her financial advisor or life insurance agent. The policy may be written on a single life or on a joint "last to die" basis. The Cambridge & North Dumfries Community Foundation can provide guidance in selecting an appropriate advisor and/or insurance policy instrument. A gift may be achieved by:

- Transferring an **existing** insurance policy, in which case the donor signs forms provided by the insurance company naming the Foundation as owner and beneficiary. A donation receipt may then be issued for the "cash surrender value" (CSV) that may have accumulated in the policy over time, as well as for any future premiums paid. With the transfer of ownership of an existing policy, there may be taxes to pay (related to the investment buildup of cash value in the policy), but should be more than offset by the donation tax credit.

- Acquiring a **new** insurance policy and then assigning the policy to the Community Foundation as owner and beneficiary, or
- Authorizing the Community Foundation to purchase a **new** insurance policy on your client's life as owner and beneficiary. As the donor whose life has been insured, your client pledges to make the payments of premiums to the Foundation as required under the policy.

Premium payment options<sup>2</sup> vary from single payment arrangements to payments over a lifetime. In all cases, the insurance policy will be held for safekeeping by the Foundation.

It should be noted that not all insurance policies are well suited for use in funding a charitable gift. For instance, group insurance policies allow your client to name a charity as a beneficiary, but a gift will only be realized if the donor dies while the policy is in force.

Insurance policies are sophisticated financial instruments and like other investment products, are constructed to address a variety of objectives. More costly administrative and trailer fees are associated with some types of insurance policies than others. Some features and benefits available with different policies can help tailor better charitable gift solutions.

Advisors are encouraged to complete a careful assessment of the policy terms when a new insurance product is being considered. Whenever possible, we suggest you include Community Foundation representatives in the analysis, to ensure that the policy instrument chosen is designed to serve both the charitable purposes of the donor and the requirements of the organization.

### **There are significant income tax benefits for your client:**

- Where the Community Foundation is the owner of the policy, the insurance premiums qualify as charitable donations and hence generate income tax credits. Donation receipts will be issued each year for premium payments received.
- If the gift is made in the form of an existing insurance policy, the Foundation will provide your client (the donor) with a donation receipt for the current cash value of the policy as well as any future premiums paid.

<sup>2</sup> **Caution** – New policies must first be established with a small initial premium. Until the policy is placed in force, the donor has nothing to give. Therefore the initial premium will not generate a donation receipt. Future premiums will be eligible for a donation receipt after the policy ownership has been transferred to the Foundation.

## **A Non-Charitable Annuity Combined with a Life Insurance Purchase Can Fund a Larger Future Gift**

In some circumstances, your client may wish to purchase a commercial annuity and use the payments (in whole or in part) to fund a gift of life insurance on his/her life and owned by the Community Foundation.

The donation receipt for the annual premiums paid help reduce the tax burden of the annuity. This technique can be used to produce better cash flow during a donor's lifetime and a larger gift at death, than might otherwise be possible by simply investing the capital in a term deposit or GIC, paying tax on the earned income and leaving the capital to charity by will at death.

Both the community foundation and the donor's advisors will want to think through (and be comfortable with) the financial implications of such arrangements. In all cases, the objective is to produce a better financial result for the donor and the charity than would otherwise be the case.

Your client may wish to consult with you and/or other financial advisors to determine the financial benefits of this gift arrangement.

There are many other ways in which life insurance can be used in planning for a gift to charity. Wealth or asset replacement strategies may allow your client to gift appreciated property **today** to reduce taxes and leave tax-free life insurance proceeds to heirs **tomorrow** in place of such assets.

To explore the potential of such gift arrangements, we invite you or your client to contact the Foundation office at any time for more information.

## Section 5 - More Complex Gift Instruments

### Charitable Remainder Trusts and Gifts of Residual Interest

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There are many specialized forms of giving available for donors to consider today. Your client can, for example, make a meaningful contribution to the Cambridge & North Dumfries Community Foundation through a charitable remainder trust (CRT) or a gift of residual interest (GRI) in a property.

**A charitable remainder trust** is a *deferred* giving arrangement where your client would irrevocably transfer property (cash, appreciated securities or real estate) to a trustee. Your client would retain the right to the income from the trust, either for life or a specified term of years, and at the end of that time, the trust principal would become a gift to the Foundation.

Your client would receive a donation receipt for the *present value* of this remainder interest. In consultation with the Foundation, your client may designate the use of his/her gift in support of a particular charity, program or service in the community, or that the proceeds be held as endowment.

A trust can provide a means to ensure that ultimate charitable intentions can be carried out effectively, without neglecting interim financial responsibilities.

#### Benefits of Charitable Remainder Trust Gifts

- Your client would receive a donation receipt for the present value of the remainder interest, providing **immediate tax relief** in the year of the gift.
- Your client would retain control over any income generated by the trust.
- Your client could be freed from the obligation of managing assets invested under the trust by appointing another trustee to handle this task.
- Your client's gift would not be subject to probate (minimizing the probate fees otherwise payable) and would be less susceptible to challenge than other forms of estate gifts by will.

**A gift of residual interest** “gives back” in a different way. Your client may choose to donate a personal residence but retain the right to occupy it for life, or contribute a work of art and continue to enjoy it during their lifetime. In each case, your client would be entitled to receive a donation receipt for the *present value* of the “residual interest” of the assets given to the Cambridge & North Dumfries Community Foundation.

A residual interest in real estate can be given through a deed registered in the name of the Community Foundation showing that your client retains a life interest.

A residual interest in artwork or some other piece of tangible property can be given through an indenture that specifies the terms of the gift.

### **Benefits of Residual Interest Gifts**

- Your client is entitled to a donation receipt for the *present value* of the residual interest.
- Your client continues to enjoy the property for life. In fact, any surviving spouse may also enjoy the property for life if your client so decides.
- Your client's gift is not subject to probate.

## Section 6 - Sample Agreement Forms

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*To obtain current copies of agreement forms or to obtain more information on the Gift Planning Services of the Cambridge & North Dumfries Community Foundation, please contact:*

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Information published in this manual is of a general nature. It is provided to be of assistance to prospective benefactors of the Cambridge & North Dumfries Community Foundation and their professional advisors.

Descriptions of gift instruments and examples cited are believed to be accurate interpretations of current Canadian law, but readers should be aware that the material is subject to change and may require periodic revision and review.

In all cases, clients should be encouraged to seek the appropriate professional advice prior to finalizing a gift decision.