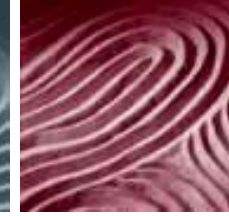


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CCRA ADDRESSES DIRECT DESIGNATIONS OF INSURANCE AND THE DISBURSEMENT QUOTA

By Rachel L. Blumenfeld

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CCRA addresses direct designations of insurance and the disbursement quota

Amendments to section 118.1 of the *Income Tax Act* following the February 2000 Federal Budget permit the issuance of a charitable tax receipt to a deceased taxpayer where a charity was directly designated as the beneficiary of the deceased's life insurance policy, RRSP or RRIF contract. The tax credit may be used to offset taxes that are payable in the deceased's terminal tax return (see "Charitable Giving with Life Insurance" in our April 2002 newsletter). While this change simplified the donation of life insurance proceeds, RRSPs and RRIFs, it presented a potential problem for charities in calculating their disbursement quotas.

The definition of "disbursement quota" in subs. 149.1(1) of the *Income Tax Act* exempts "a gift of capital received by way of bequest or inheritance" from inclusion in a charity's disbursement quota. Prior to the February 2000 change, in order for a tax receipt to be issued in the name of the deceased for the proceeds of life insurance, or RRSP or RRIF contract, the estate had to be named as the beneficiary of the policy or contract. The proceeds would be donated to the charity in the Will of the donor. The gift was then received by the charity "by way of bequest or inheritance" and excluded from the disbursement quota. Under the direct designation regime, however, it was not clear that the proceeds would fall under this exemption.

The Canadian Association of Gift Planners wrote to the Charities Directorate of CCRA in January 2002 for clarification of this problem. The CCRA has recently responded (January 16, 2003), reassuring charities that the proceeds of insurance, RRSPs or RRIFs received by way of a direct designation need not be included in the disbursement quota calculation. In Document Number 2002-0133545, the CCRA explained that it does not view these payments as gifts for purposes of the disbursement quota, only for purposes of s. 118.1 of the *Income Tax Act*. That said, the CCRA has made recommendations to Finance to amend the Act to remedy this technical problem.