THE BENEFITS OF INTELLIGENT GIVING

by Marshall McAlister, CFA
Private Wealth Counsellor, Principal

&

Tim A. Morgan, M.Sc., CFA
Private Wealth Consultant

Canadians are known for their generosity. Every year thousands of Canadians support their communities and causes that they believe in by donating both their time and property. In fact, charitable giving is on the rise in Canada. A new report shows eight in 10 adults have made a charitable donation in 2012, an increase of more than 10 per cent from 2011.[1]

THE BENEFITS OF GIVING

There are many reasons why we give, and just as many benefits to both others and ourselves as a result.

Helping the less fortunate and supporting a worthy cause

We help those who need it because we feel compassion, we personally believe in a cause, or we simply want to give back to the community. We also believe in supporting causes such as the arts, education, recreation, the environment, and even health research. Donating to a worthy cause is a great way to support one's community and help those who need it.

Increasing one's happiness

Studies have shown that giving can increase one's happiness. One recent study found that altruistic financial behavior, such as charitable donations, may promote happiness.[2] Other research suggests that as people give more, they become happier, and give even more.[3]

Receiving Tax benefits

Canada's tax system provides generous incentives to encourage Canadians to donate, which can fund as much as 50% of the donation. Giving gifts of monetary value to charities allows people to take advantage of these valuable tax benefits.

INTELLIGENT GIVING STRATEGIES

Charitable gifts have monetary value, but not all gifts qualify for charitable tax receipts. Valuable donations such as time and clothing, or those in which a personal benefit is received do not qualify for tax receipts. Under CRA guidelines, in order for a gift to be considered for tax benefits, it must be given without the expectation of receiving something in return. These types of gifts include the following[4]:

- Cash
- Gifts in kind (such as shares in a company or real estate)
- Cultural property and ecologically sensitive land (works of art, historical or other cultural artifacts)
- The proceeds of a life insurance contract or gifts of life insurance

In order to make the most of the available tax credits, charitable giving should take into consideration both your philanthropic and estate planning goals, and the

PAVILION INVESTMENT HOUSE
A division of Pavilion Advisory Group Ltd.

11523-100 Avenue NW, Suite 402
Edmonton, Alberta
T5K 0J8

Tel: 780-638-2490
Toll free: 1-888-638-2490
www.pavilionih.com

guidance of your tax and financial advisors is strongly recommended. As part of a gift giving strategy, let's look at some ways you can structure these gifts, both during your life and through your will.

Use tax credits to help fund your donation

In Alberta, the tax credit for charitable donations can be up to 50% for annual donations larger than $200, which includes both federal and provincial tax credits.

The calculation below shows the potential tax savings for a $10,000 donation.

Tax Credit Calculation	
Donation	$10,000
Total tax savings as a % of gift	50%
Federal and Provincial tax credits	$5,000

Pool tax receipts with your spouse

You can pool tax receipts from both your and your spouse's donations in order to maximize the tax benefit.

Donate securities instead of cash

In 2006, the government dramatically improved the tax benefits of charitable gifts of securities such as stocks or mutual fund units. Securities donated to registered charities that have appreciated in value since acquisition will not have any portion of the gain taxed.

In the case of donating securities, all that is required is for the organization to have an investment or brokerage account to receive the securities. Once the securities are received by the charity, they can be liquidated and the proceeds can be used by the charity.

Consider corporate donations

If you are holding publicly traded securities inside a corporate account it may be advantageous for these securities to be donated directly from the corporation. While generally the tax saving is not as large as a stock donation within a personal account, it may still be preferential to give an appreciated security rather than cash within the corporate account.

DONATING SHARES

Suppose that you want to make a $10,000 donation to your favorite cause, and you have securities which are worth $10,000, but were originally purchased for $2,000. You have a couple of options.

1. You could sell the shares and donate the proceeds. Since the shares are worth $8,000 more than the original purchase price, capital gains tax must be paid. Assuming a 39% income tax rate, you would have to pay $1,560 (one half of $8,000 X 39%) in tax and have $8,440 left to donate. The tax credit received from the net donation of $8,440 would equal $4,220.

2. Now suppose you donate the shares directly to your favorite cause. The charity receives shares worth $10,000 and thus provides an increase in your donation tax credit from $4,220 to $5,000. As the gain on shares donated to a charity is not taxed, the $1,560 in tax on the capital gain has now been permanently avoided.

	Sell and Donate Cash	Donate Securities
Original Investment	$10,000	$10,000
Total Gain (to be taxed)	$8,000	$0
Tax	$1,560	$0
Net Donation to Charity	$8,440	$10,000
Tax credit on Proceeds @50%	$4,220	$5,000
Net Cost of Donation	$7,340	$5,000

Net Cost of Donation = Original Investment – Tax credit on Proceeds + Tax

Given the complexities of corporate tax law, it's imperative that the plan is vetted by your tax advisor.

Carry forward large donations

The maximum amount that you can claim each year from charitable donations is 75% of your net income. If you choose to not claim a donation in a particular year, you may carry forward the tax benefit to be used in any of the following five years.[4] By carrying forward your donation, the charity can benefit from the funds today while future credits can be applied to your income for tax planning purposes.

Use life insurance as a planned giving strategy

Suppose you have a "permanent" life insurance policy and you would like a charity to be the beneficiary of your life insurance. You can donate the policy to a charity making it both the owner and the beneficiary. If you continue to pay premiums on the policy after donating it to the charity, you can recognize each payment as a charitable donation giving you a tax benefit. Additionally, if the charity is the beneficiary of the policy that you continue to own, then the payment of the death benefit to the charity is considered a donation and can be claimed on your final tax return.

The example above is one way to use insurance in your gifting strategy, but there are many strategies to consider. Other such insurance strategies are Charitable Annuities or Leverage Corporate Insurance Annuities and can also be considered where appropriate. Given the complexity of this type of planning, it is important that your advisory team is well versed on the integration of insurance contracts.

Consider a Foundation

A Foundation is a structure that many high net worth Canadians use to further enhance their gifting strategies. Foundations are a way to move assets away from ones' personal balance sheet in order to designate funds for future giving. The Foundation will hold assets and disperse funds according to the policy established by the donors.

There are two, tax-related benefits of considering a Foundation within a gifting strategy. First is the donation tax credit that comes from funding the Foundation. Given that the amounts that fund a Foundation are generally larger amounts of money, these larger gifts will generate significant tax donation credits to offset taxable income.

The second benefit comes from the shifting of assets that are earmarked for donations (that would generally sit in taxable accounts) to a non-taxable status when held in a Foundation.

The government has established rules that stipulate the giving amounts and frequency that Foundations must follow. It is important to note that assets given to a Foundation are permanent gifts even though not yet delivered to the registered charity.

Consider your Community Foundation

Private Foundations have set up costs as well as on-going costs to administer the fund. For large Foundations, these costs may be inconsequential, but for smaller Foundations, these costs may be prohibitive. Most major centers in Canada have established Community Foundations in order to help in the set up and administration of a Foundation. Community Foundations organize the set up and administration for donors so that they can avoid some of the costs of a Private Foundation.

Community Foundations may also give donated funds access to professional investment management at a level of sophistication and fees that would not be attainable within a private structure. For donors who have a Portfolio Manager and are wishing to have their own investment plan, it is possible to establish a Donor Advised Fund within the Community Foundation. A Donor Advised Fund will allow the specific investment wishes of the donor to be followed while allowing the Community Foundation to facilitate the administrative duties of the Foundation.

It is important to note that many banks and brokerage firms have established Foundation platforms that will perform similar duties to that of a Community Foundation. The administration fees along with the investment management fees for these commercial foundations can be extremely high and as a result, end up blocking the effectiveness of the donation.

HAVE A PLAN

While managing the tax costs in connection with giving is a worthwhile planning exercise, it may not address one of the most fundamental planning matters. This important matter within a philanthropic plan is the calculation and confirmation of one's ability to give. Without a well thought out retirement plan, donors may question their true ability to donate. Retirement planning eliminates this uncertainty and allows philanthropy to be added to your budget with confidence.

A well thought out retirement plan will incorporate variations in longevity, investment returns and spending, all in an effort to stress test the funding ability from investments. If it is determined that lifestyle spending goals can be adequately matched with the amount of funds held, a donations strategy can be confidently implemented.

While assets can always be specified in one's will to go to their charity, planning may allow for charities to benefit from the donations sooner. Also, having the ability to see the impact of your donation while you're alive is definitely a favorable result of planning.

In order to bridge the gap between donors and charitable organizations and optimize the overall benefits through planned giving, it is important to receive guidance from your tax and financial advisors. Through proper financial planning that takes into account various giving options, the gap can be bridged between donors and charitable organizations, and the benefits can be maximized while making a positive difference in both our community and ultimately people's lives.

Inquiries or comments concerning this article may be addressed to:

Marshall McAlister, CFA
Private Wealth Counsellor, Principal
mmcalister@pavilioncorp.com

Tim A. Morgan, M.Sc., CFA
Private Wealth Consultant
tmorgan@pavilioncorp.com

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