STRATEGIC PHILANTHROPY

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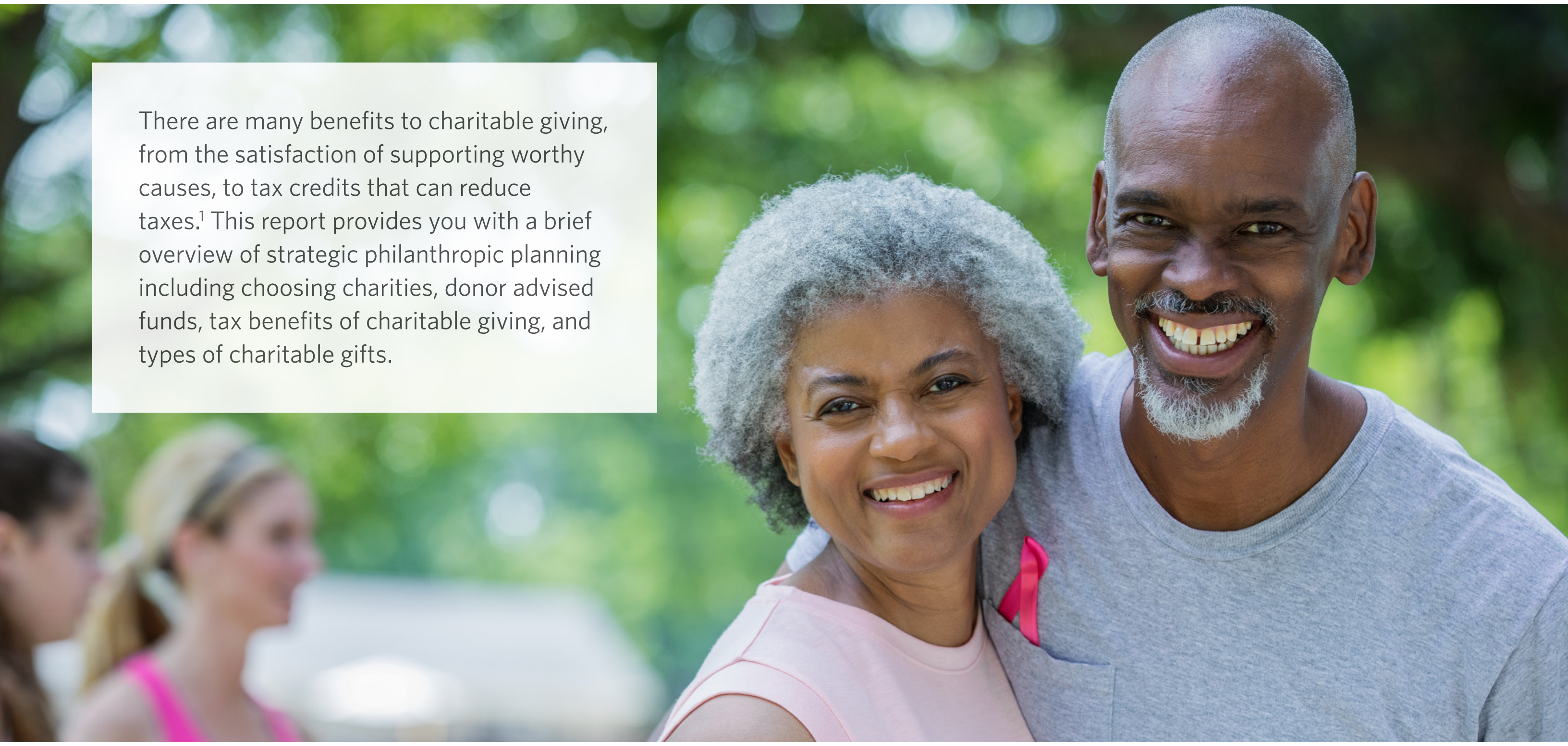

There are many benefits to charitable giving, from the satisfaction of supporting worthy causes, to tax credits that can reduce taxes.[1] This report provides you with a brief overview of strategic philanthropic planning including choosing charities, donor advised funds, tax benefits of charitable giving, and types of charitable gifts.

Supporting causes that are important to you and your family

With over 80,000 registered charities in Canada, it can be overwhelming to decide what charities you want to support. To start consider:

- What causes are meaningful to you or your family?
- What makes you happy? What do you worry about?
- Do you want to dive deep on one issue or address several issues?
- Is there a specific group or demographic you want to help?
- What community or area do you want to benefit?
- What values or philosophies are important in your giving?

Thinking through these questions can help you focus on the charitable causes that are the most meaningful to you. There are many good choices and more than one right answer. Consider having your family, friends and advisors help you with your decision.

If you want more time to decide, then a private foundation or a donor-advised fund may be a good option. Donating to either a private foundation or donor advised fund allows you to receive a charitable tax receipt in the year(s) you donate and funds can be disbursed to other registered charities over time.

Private foundations

A private foundation is best suited for donors who want to be active in the administration of a charity or donors who want to carry on charitable programs directly. Donors interested in a private foundation should have a significant amount of capital available to donate (typically several million dollars), given the costs associated with running a private foundation.

Donors are responsible for setting up the trust or corporation, charitable registration and ongoing administration of a private foundation. To get started you will need a board of directors or trustees, investment professionals and a legal and accounting team to establish and register the foundation with the Canada Revenue Agency and prepare the necessary annual filings. Private foundations have some special rules. For example, a private foundation cannot issue a tax charitable receipt for private company shares to a donor who is a director of the foundation.[2] Professional advice is recommended to ensure your donations can be receipted.

Donor advised fund

Donor advised funds are an alternative for individuals who like the idea of a private foundation, but do not want to administer a charity, and donors who prefer more privacy. A donor advised fund is an account at a public foundation that holds your donations. You donate to the public foundation and receive a tax receipt for your donations. Each year you can recommend grants to be made from your donor advised to other registered charities. While the public foundation's board has the final say on grants, most foundations will follow your recommendations.

The funds in the donor advised fund are invested and grow tax-free, providing more funds to grant to other charities. All administration and compliance of the donor advised fund is taken care of by the public foundation. The foundations charge an administration fee (typically ranging from 0.5% to 1.5%), which is often lower than it would cost to administer your own private foundation.

Donor advised funds can be more private than a private foundation. Private foundations must disclose significant information in their charitable tax return, including information on the charity's funds, directors, and amounts granted to each recipient charity. This information is available to the public on CRA's website. Public foundations must complete the same charities tax return, but the returns do not include information about individual donor advised funds. Additionally, many donor advised funds give donors the option to gift anonymously to other charities from their donor advised fund.

You can involve your family in a donor advised fund. You can have family discussions on which charities should benefit from your fund. As well, you may be able to name family members as your successors upon your incapacity or death, so they could recommend charitable grants from the account when you no longer can.

If you are interested in setting up a donor advised fund with a public foundation, speak to your Investment Advisor or Investment Counsellor to learn more about this option.

The tax incentive to give

The federal and provincial governments provide tax incentives designed to encourage charitable donations. When you donate to a registered charity you can claim a non-refundable charitable tax credit against taxes owed for the year. For most gifts, the maximum amount of donations on which you can claim the charitable tax credit each year is equal to 75% of your taxable income.[3] Any unused charitable tax credits can be carried forward and claimed during the five years (10 years for gifts of ecologically sensitive land) after the donation is made.[4] Since charitable gifts made during your lifetime cannot be carried back to prior tax years it is important to make the gift before the end of the tax year in which you want to claim the donation.

The charitable tax credit rates vary depending on your province or territory and your income tax bracket. In most provinces, the first $200 you donate to a registered charity is eligible for a lower charitable tax credit.[5] The remainder of your gift receives a higher tax credit and, to the extent that individuals have income in the top tax bracket, the combined federal and provincial credits range from 44.5% in Nunavut to 54% in Alberta and Nova Scotia.

Spouses and common-law partners

Married individuals and common law partners can combine charitable donations and one spouse or partner can claim all donations up their personal limit. Having one individual claim all the donations avoids having the lower tax credit on the first $200 for the second spouse or partner. If the spouses or partners have income in different tax brackets, then having the higher income earner claim all the charitable tax credits may also result in a higher charitable tax credit.

Corporate donations

There are also tax incentives to encourage corporations to make charitable donations. A corporation that donates to a registered charity can deduct the fair market value of the gift against its taxable income. The maximum charitable tax deduction that can be claimed each year is equal to 75% of the corporation's taxable income.[6] Any unused donations can be carried forward and deducted during the five years (10 years for gifts of ecologically sensitive land) following the year of donation.

If you have private corporations, then consider which is the right person or corporation to make your charitable gift. Who has assets to gift? Who has the taxable income? While spouses and partners can share charitable tax credits during their lifetime, other taxpayers cannot share these credits. A shareholder cannot claim a tax credit for a gift made by their corporation. Make your charitable gift from the person or corporation you want to claim the charitable tax credit or deduction.[7]

Lifetime gifts

Giving to charity during your lifetime has many benefits. Most importantly your gift can be used to help others right away. You may enjoy seeing your gift being put to good use during your lifetime. If you give on an ongoing basis, then you can assess the impact of your charitable giving to decide how best to allocate your next gift.

From a tax planning perspective, when you make a charitable gift you may be able to reduce taxes payable during your lifetime or in your estate. If you have a big taxable event, such as the sale of your business or vacation property, then you may be able to reduce your taxes payable by making a significant donation to charity in the same taxation year.

Estate gifts

You can also benefit a charity and reduce taxes payable on your death by leaving a gift to a registered charity as a beneficiary of your will. Alternatively, where permitted by provincial law, you can use a beneficiary designation form or document to designate a charity as a beneficiary of your registered accounts, such as an RRSP, RRIF or TFSA, or as beneficiary of a life insurance policy.[8] Your will and beneficiary designation documents are important because the estate representative does not have the discretion to make a charitable gift without these instructions from you. The gifts in these documents are not paid to the charity until after your death. You can change your gifts by updating your will or beneficiary designations. After your death, your estate will receive a charitable tax receipt once the charitable gifts are made. With proper planning the charitable tax credit can be claimed against 100% of taxable income in the year of death or the year immediately prior to death, or against 75% of taxable income in the estate for at least five years.[9] For more information on these gifts see the report Charitable Estate Gifts.[10]

Cash gifts

Donating cash is one of the easiest ways to give to charity. Giving to charity can be as simple as donating online, mailing a cheque, or having the funds deducted from your payroll. Upon receipt of the funds the charity can issue you a charitable tax receipt.

Gift publicly-traded securities

While charities welcome gifts of cash, donating certain securities that have increased in value can result in more tax savings. Eligible securities include stocks or bonds listed on a designated stock exchange, and certain mutual fund units or segregated funds. When eligible securities are donated directly in-kind to a registered charity, then there is no capital gains tax on the gifted securities. In addition, you can still claim a charitable tax credit based on the fair market value of the securities as of the date of the transfer. As a result of this tax incentive, it may be more beneficial to donate eligible securities directly to charity than to sell them and donate the proceeds.

This incentive also applies when a corporation makes a gift of eligible securities. The corporation receives a tax receipt for the fair market value of the securities and there is no capital gains tax on the gifted securities. In addition, the full amount of the capital gain is added to the corporation's capital dividend account (CDA). This may allow the shareholder to receive a non-taxable capital dividend from the corporation.

Canadian cultural property or ecological property

There are enhanced tax incentives to donate Canadian cultural property or ecologically sensitive land to charity. Both types of property require an application to the federal government. The government bodies certify that the property qualifies for this tax treatment and they value the property for the purposes of the charitable tax receipt. Once certified, a donation of Canadian cultural property must be made to a designated institution or public authority. Similarly, the land, a conservation easement, covenant or servitude on the ecologically sensitive land must be gifted to a Canada, a province, territory or municipality, or to a registered charity approved by Environment and Climate Change Canada. These charities hold these special gifts to preserve them for future generations.

For tax purposes the limit on amounts claimed for charitable tax deductions and credits is increased to 100% (rather than 75%) of taxable income for gifts of Canadian cultural property or ecologically sensitive land. Unused tax credits for ecologically sensitive gifts can also be carried forward for ten years (rather than five years).

Life insurance policy

If you are interested in making a large charitable donation at a relatively small cost, donating a life insurance policy to charity may be an option for you to consider. There are different ways to donate a life insurance policy.

You can retain ownership of an existing life insurance policy and name a charity as the beneficiary of the policy. In this case the charity will receive the death benefit proceeds upon your death and issue your estate a tax receipt for the full amount of the insurance proceeds. Like other estate gifts, you may be able to use the receipt to reduce your taxes in the year of death, the year before death or in the estate or claim the amount in certain years of the estate.

Alternatively, you can reduce taxes payable during your lifetime by taking out a new insurance policy or transferring an existing insurance policy to charity, so that the charity becomes the owner of the policy. You can get a charitable tax receipt for the value of any insurance premiums you pay after the charity owns the policy.

If you transfer a life insurance policy you already own to a charity for tax purposes you will be considered to have disposed of the policy at the greater of the adjusted cost basis ("ACB") and cash surrender value (CSV) of the policy. If the CSV exceeds your ACB of the policy, you will realize a policy gain is fully included (100%) in income, unlike a taxable capital gain which is only 50% taxable. You will also be entitled to a donation tax credit for the fair market value (FMV) of the policy, which may differ in amount from the CSV, and which will usually more than offset any tax payable on the disposition of the policy. A policy's FMV must be calculated by a qualified actuary.

The taxation and gifting of life insurance products involves numerous rules and exceptions, making it a particularly complex topic. These strategies should only be undertaken with the assistance of qualified tax professionals to ensure the desired outcome.

Conclusion

Strategic philanthropy aims to make your charitable giving more rewarding. Consider what causes matter the most to you personally. Incorporate your charitable giving strategy as part of a comprehensive wealth plan that balances your financial situation with your philanthropic goals. Seek advice from your financial, tax and legal advisors to review your individual situation and plan your charitable giving strategy.

[1] In this article, we assume that the donations are made to Canadian registered charities.
[2] The foundation may be able to issue a tax receipt if the non-qualifying securities are sold within 5 year time period.
[3] This limit can be increased by 25 percent of any taxable capital gain or recaptured depreciation resulting from qualifying donations of capital property.
[4] More generous rules apply to gifts of ecologically sensitive property and cultural property and estate gifts, as described later in this report.
[5] Alberta provides a higher charitable tax credit for the first $200.
[6] This limit can be increased by 25 percent of any taxable capital gain or recaptured depreciation resulting from qualifying donations of capital property.
[7] More generous rules apply to gifts of ecologically sensitive property and cultural property as described later in this report.
[8] In Quebec, you can only make beneficiary designations on RRSPs, RRIFs or TFSAs issued as an annuity or life insurance.
[9] The estate must qualify as a graduated rate estate to have the flexibility to claim the gift in these years.
[10] This report is available online at https://www.cibc.com/content/dam/personal_banking/advice_centre/tax-savings/report-charitable-estate-gifts-en.pdf