

Smart Planning = Wise Giving

Collingwood General & Marine
Hospital Foundation
May 4, 2010

Malcolm D. Burrows
Head, Philanthropic Advisory Services
malcolm.burrows@scotiastrust.com
416-933-2351

Agenda

1. Combining Giving With Planning
2. Your Estate Plan & Charitable Bequests
3. Gifts of Public Securities
4. Gifts of RRSPs/RRIFs
5. Charitable Bequest Checklist

Combining Giving with Planning

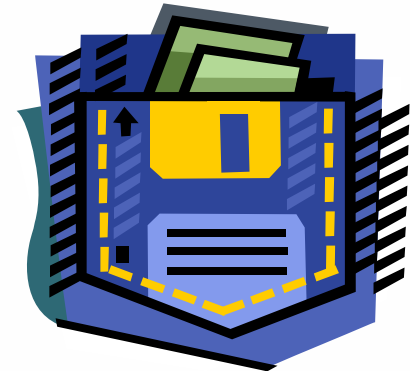
Tax Incentives for Giving

- Since 1996, tax incentives for charitable giving in Canada have been dramatically enriched
- Canada now has the most generous tax system in the world in support of charitable giving
- New incentives focus on exceptional gifts from assets, not annual gifts from income
- Gifts from assets require careful planning

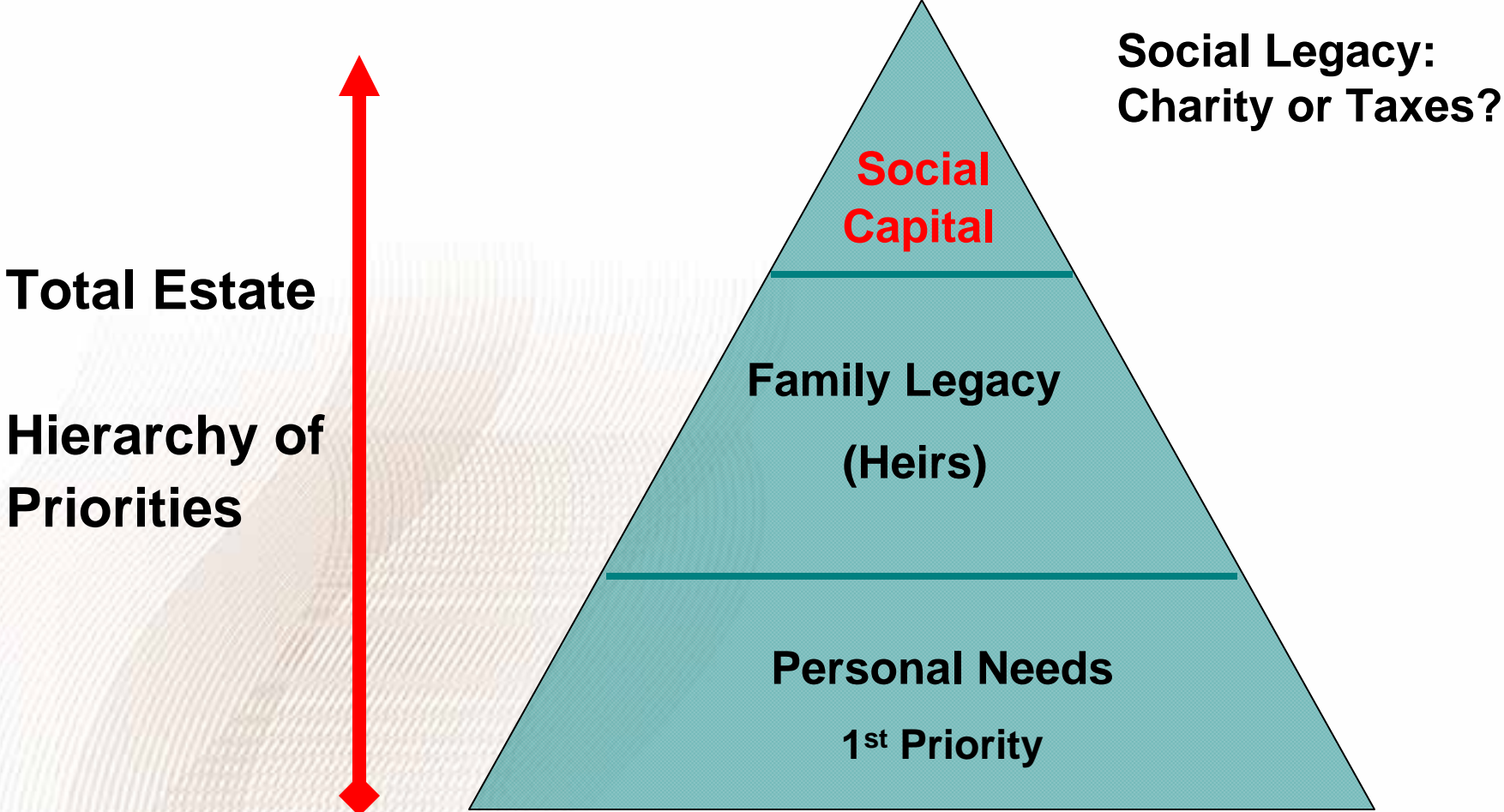
Two Pockets

The process of combining philanthropy with financial planning involves redefining how we think about giving

- Income Pocket = Annual Gifts
- Asset Pocket = Exceptional Gifts or Planned Gifts

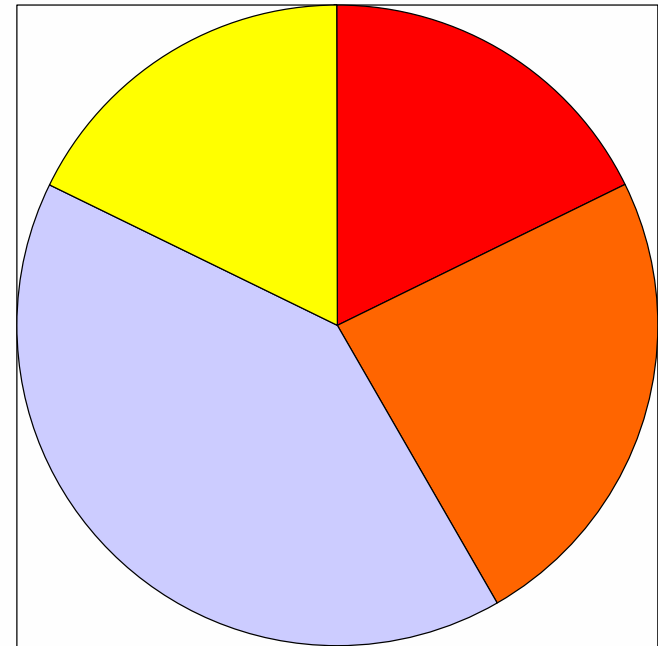


Values in Planning



Giving & Your Estate Plan

- Good charitable plans start with clear goals, especially for your estate plan
- Identify your priorities:
 - Family
 - Other beneficiaries
 - Charities
 - Taxes
- Clarity helps execution



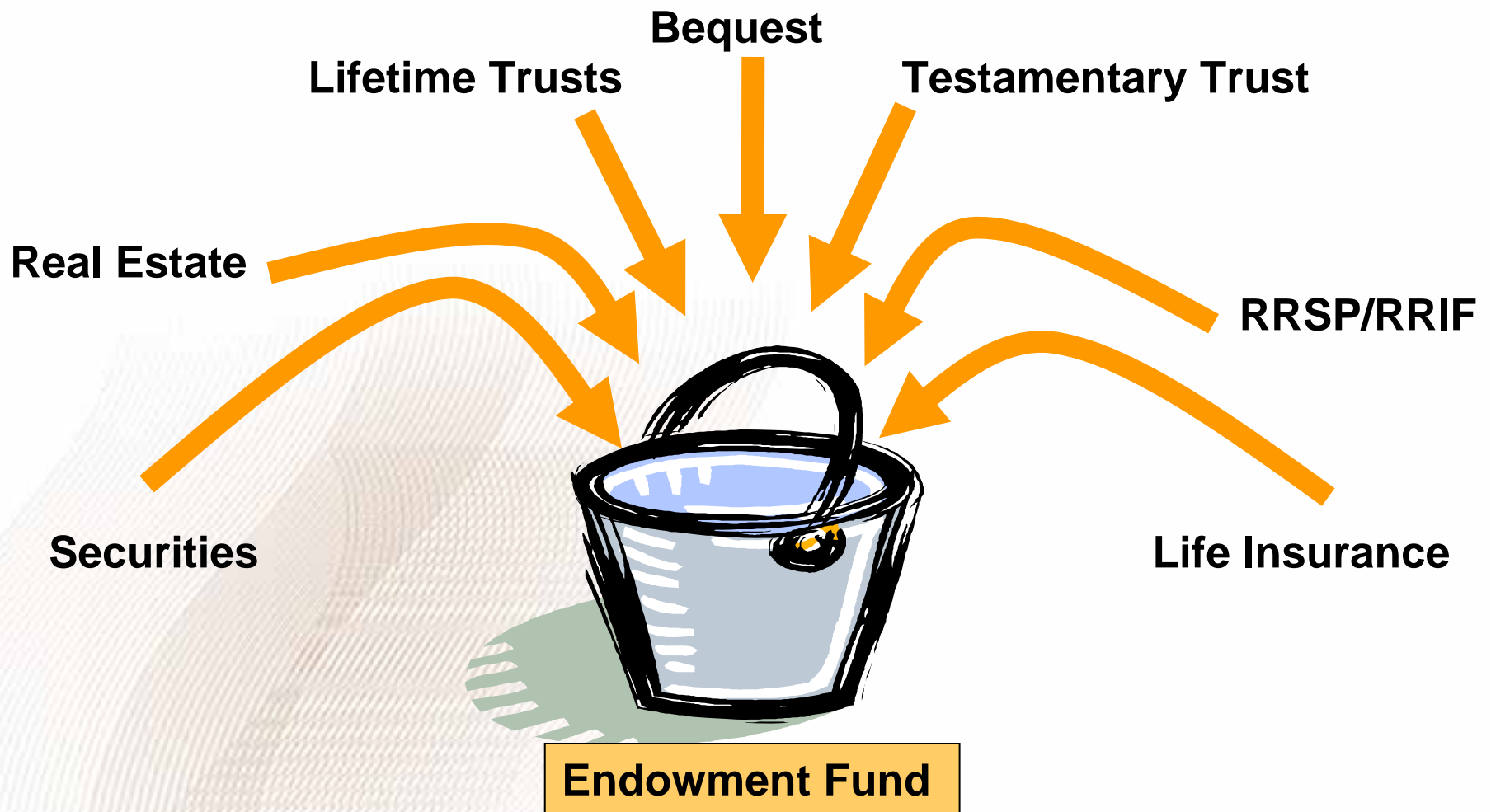
When to Give

Exceptional gifts often correspond with major life and financial events:

- Death
- Sale of a large stock position
- Sale of your company

These events produce tax liabilities that can be offset by well-planned donations.

Endowment Fund as Planning Container



Some Options for Giving

- Bequests or Gifts by Will
- RRSPs and RRIFs
- Public Securities
- Life Insurance
- Charitable Annuities
- Charitable Insured Annuities
- Charitable Remainder Trusts
- Private Company Shares
- Real Estate

Your Estate Plan & Charitable Bequests

1. Bequests

- gifts by Will to persons or charities
- most common “future” donation
- easy to make – just requires Will or codicil to Will
- revocable – enable donors to change their minds and alter terms of bequests as circumstances change
- Will should be drafted by lawyer & updated every 5 years or after major life changes

Bequests: tax implications

- tax credit on donor's final income tax return based on value of bequest
- amount of bequest creditable on final tax return is 100% of income
- one-year carryback, also subject to 100% contribution limit

Bequests are flexible

- Specific sum (legacy, typically in form of cash)
- A percentage of the estate (residual)
- Personal property
- Property such as public securities or real estate
- A testamentary trust will delay payout to charity, and provide spouse or dependant use income/capital for life or term

Types of bequests

1. Contingent or Disaster Clause Bequest
2. Specific Bequest or Legacy
3. Residual Bequest

Contingent Bequest

- a bequest made after certain conditions are met (ie should heirs die first)
- “disaster clause” bequest
- essential part of well-drafted Will
- enables donors with dependents to include charity in Will

Priority of Charity: family highest priority, due to immediate needs

Specific Bequest

- gift of a specific amount of money or property
- distributed first
- preserves privacy, since the whole will is not shared with the charity

Priority of Charity: charity is important priority, but lesser importance than family

Residual Bequest

- gift of all or part of residue of estate
- paid after debts, fees, taxes and specific bequests
- usually largest bequests

Priority of Charity: charity is as important or more important than family beneficiaries

- often residual bequest donors do not have children

Estate Trustee (Executor)

- Estate Trustee is the person or company named to carry out the instructions contained in the Will
- Estate administration is complex and time consuming
- Estate trustee should be resident in the Province
- Corporate executor, such as Scotiabank, provides expertise
- Corporate executor helpful with complex families and estates, as well as testamentary trusts
- Scotiabank provides no-cost estate planning to its clients

Gifts of Public Securities

Donate to Eliminate

- Donations of public securities – including stocks and mutual fund units – are exempt from capital gains
- Extra tax incentive in addition to the regular tax credit of 46.4%

Planning Opportunity:

- Consider using donations of securities to facilitate a variety of financial and personal goals
- Match tax credits with liabilities to balance goals

Example: Public Securities Gift

Henry Jarvis, age 67, is an Ontario resident with an investment portfolio

- He is charitable and has large gains in the portfolio
- Doesn't want to sell and trigger tax
- Considering a major gift to his favourite charity
- He would like money for a major purchase

Client Profile: Henry Jarvis

- Ontario marginal tax/credit rate @ 46.4%
- 5,000 shares in Goldco Ltd @ \$20 per share & ACB of \$5 per share; minimal dividend
- FMV: \$100,000 – ACB \$25,000 = \$75,000 capital gain
- Share value has peaked; feels trapped by tax bill
- Has other assets – securities, RRSP, home and pension

50/50 Plan Example

- 50/50 Plan is a gift planning balancing act
- 50% of stock position is donated; 50% is sold for personal use

Goals:

- Make Gift
- Eliminate taxes
- Retain funds for personal use
- Control use of capital

50/50 Step 1

Donation

Value of donation	\$50,000
Tax credit @ 46.4%	\$23,200
Capital gain (50% of \$75,000)	\$37,500
Taxable gain @ 0%	0
Tax on gain @46.4%	0
Capital Gain Tax saved	\$ 8,700
Gross tax savings from donation (\$23,200 + \$8,700)	\$31,900

50/50 Step 2

Sale

Value of Stock sold	\$50,000
Capital gain (50% of \$75,000)	\$37,500
Taxable gain @ 50%	\$18,750
Tax on gain @ 46.4%	\$8,700
Net sale proceeds (\$50,000 – \$8,700)	\$41,300

Summary: 50/50 Plan

Total Net Proceeds:

Net Proceeds from Gift:	\$23,200
Net Proceeds from Sale:	<u>\$41,300</u>
Total	\$64,500

Comparison with Sale

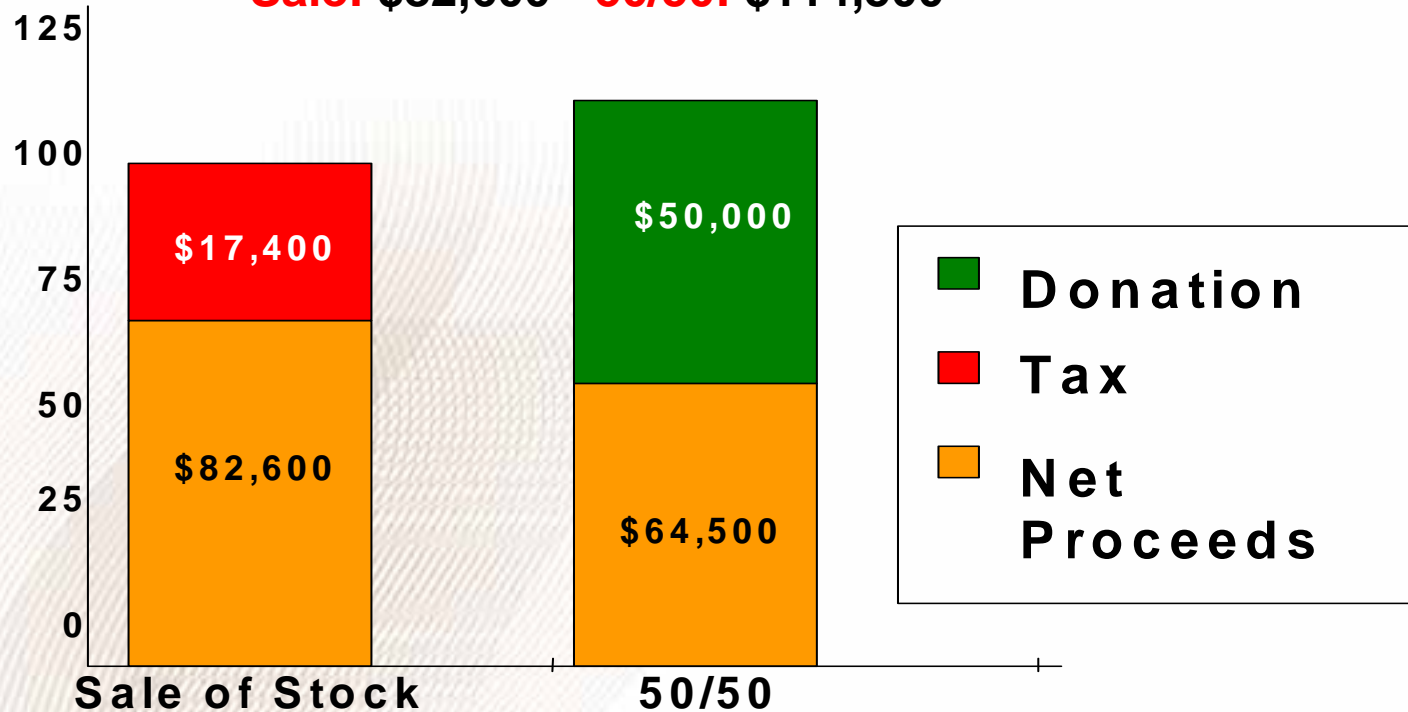
100% Sale

Capital gain	\$75,000
Taxable gain (50%)	\$37,500
Tax on gain @ 46.4%	\$17,400
Net after tax proceeds (\$100,000 – \$17,400)	\$82,600
Cost of 50/50 strategy (\$82,600 – \$64,500)	\$18,100

50/50 Stock Donation Strategy

Amount controlled by donor:

Sale: \$82,600 **50/50:** \$114,500



50/50 Summary of Goals Achieved

1. Make Gift: \$50,000
2. Eliminate all taxes
3. Retain funds for personal use
 - \$50,000 for major purchase
 - \$14,500 net tax credits
4. Control use of capital
 - 114.5% of capital controlled v. 82.6% with sale

Donate to Eliminate

- Possible to eliminate taxes and maximize the amount retained for personal use
- In this example, a gift of \$27,273 would be required to eliminate taxes on the whole position
- The amount retained would be \$72,727
- The cost to the donor would be \$10,885 v. \$19,793 for the 50/50 plan

Gifts of and from RRSPs and RRIFs

Gifts of RRSPs/RRIFs

- Possible to make a gift of RRSP/RRIF plan assets, at death, directly to charity
- One or more charities may be named beneficiary on registered plan documents
- Gifts of part or all of assets to charity, e.g. 50%
- Assets pass straight to charity, outside will and probate estate
- Tax receipt issued to estate

Advantages: RRSPs/RRIFs

- when no spousal rollover, RRSP/RRIFs most heavily taxed asset in estate (taxed as income)
- secondary assets for heirs
- a gift preserves a 100% of value of plan assets
- donation credit provides full offset
- psychologically easier to give
- direct payment preserves family privacy

Gifts of Securities from RRSP/RRIFs

- Can you donate the securities in your RRSP/RRIF during your lifetime and receive extra tax saving?
- Lifetime donations from RRSP/RRIFs can be done, but not without penalty and complication

Gifts of Securities & RRSP/RRIFs

- NOT practical to donate stock from RRSP/RRIF
 - Withdrawals taxed as income, hence no capital gain to save
 - Withholding taxes of 30% produce cash flow problems when funding gift
- Direct gifts from RRSPs and RRIFs are not recommended
- RRSP in particular provide great benefit in tax sheltering/deferral

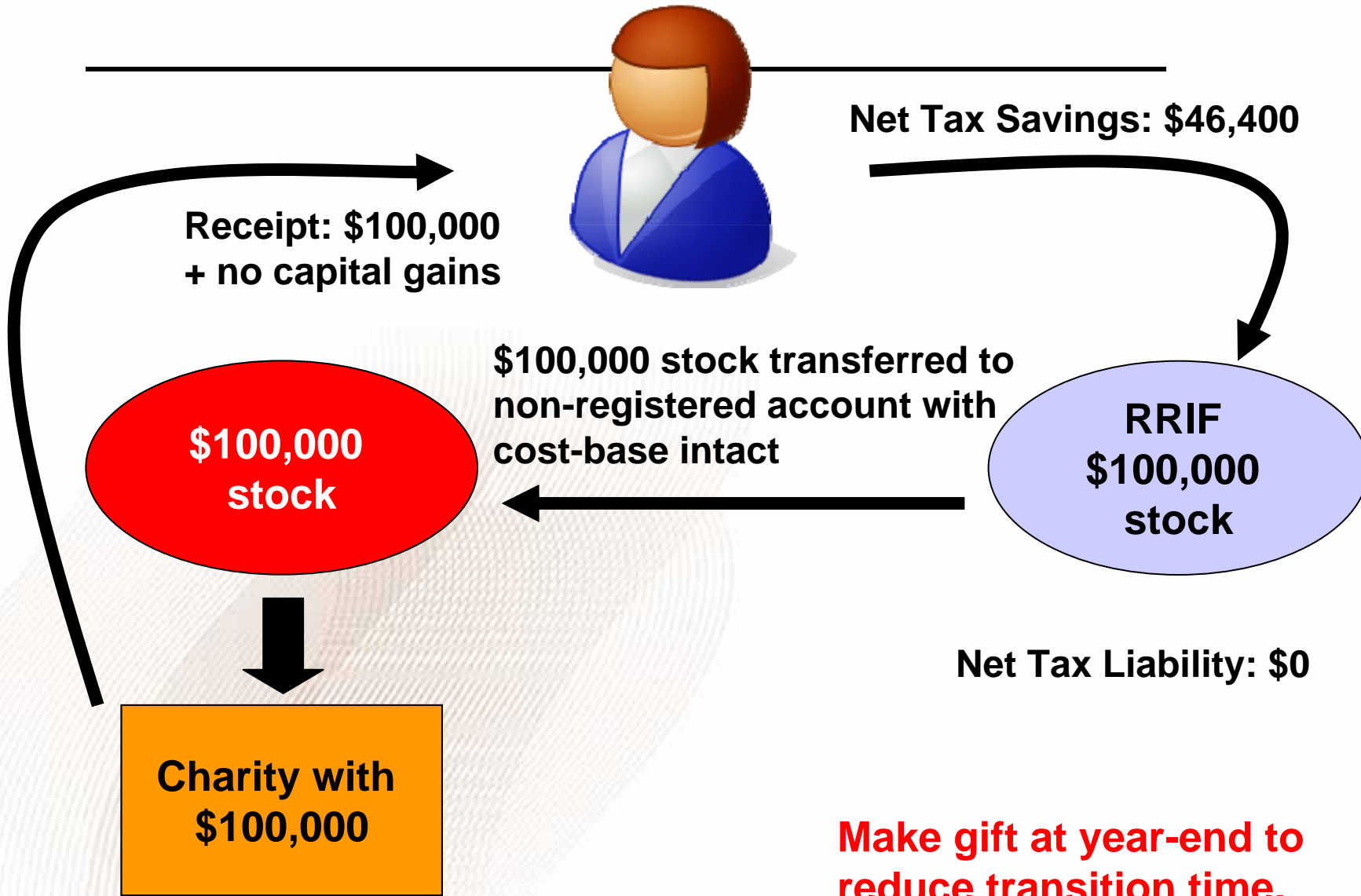
Gifts of Securities & RRSP/RRIFs

A gift of securities can unlock money from a RRIF/RRSP

Offset Plan:

- Make gift of highly appreciated stock from non-registered account
- Use tax savings to withdraw equivalent amount from RRIF (\$100,000 gift = \$100,000 withdrawal)
- Reinvest RRIF withdrawal in non-registered fund to:
 - Reduce unneeded income
 - Lower tax rate of investment

Gifts & RRIFs



Charity Checklist: Due Diligence

Should you inform the charity about your bequest?

- Traditionally, no
- Privacy is a key consideration
- Inquiry to charity often done anonymously through lawyer or trust company
- Focus of inquiry is to get name of charity correct
- Charities appreciate being informed and gifts will be better planned if beneficiary is involved in advance
- But there are other questions that a donor should ask

Checklist

1. Policy on use of bequests?

- Mission of charity? i.e. research or care?
- What is the charity's focus re long-term funding?
- Are bequests endowed?
- Used for operational funding?
- Deficits?
- Programs and services?

Checklist

2. Accountability?

- Annual report and audited statements

3. Gift Designation?

- What are the options for designating a bequest, if any?

Checklist

4. Personal Endowment Funds?

- Does the charity have an endowment?
- Does the charity have named, personal endowment fund?
- Is there a minimum amount?
- How are they invested?
- Reporting to donors and family?

Checklist

5. Privacy Policy

- Does the charity have a privacy policy?
- Can a donor remain anonymous?
- What is the charity's definition of anonymous?
- Where is information stored?
- Will disclosure of a bequest trigger further fundraising?

Checklist

6. Donor Recognition

- Are donors of bequests recognize by the charity after a gift is received?
- Does the charity recognize donors during life for future gifts?

7. Staff Gift Planner

- Does the charity have a staff gift planner (someone devoted to bequests and other planned gifts)?
- What kind of training does the gift planner have?

Checklist

8. Other forms of planned gifts

- Does the charity help donors to explore other types of planned gifts?
- Gifts of RRSPs/RRIFs?
- Charitable gift annuities?
- Life Insurance?

Checklist

9. Leadership

- How well run is the charity?
- How long has senior leadership been in place?

10. Mission

- What are the charities current accomplishments and future priorities?
- Ensure the charity can demonstrate effectiveness

Checklist: Conclusion

The Charity Checklist is a good process to assess the practices and level of professionalism of a charity.

- See Canadian Donor's Guide online or in-print for full article
- Good charities appreciate engaged donors and tough questions.
- Trust should be earned, not assumed.

Questions

Malcolm D. Burrows

Head, Philanthropic Advisory Services
Scotia Private Client Group

416-933-2351

malcolm.burrows@scotiastrust.com



Malcolm is a nationally-known gift planner whose focus is charitable gift planning for private clients. He came to the Scotia Private Client Group in 2004 after spending 13 years with three Toronto charities. Scotia Private Client Group is the largest national service provider to private foundations and operates Aqueduct Foundation, a public foundation with donor advised funds.

Malcolm has been a CAGP board member for two terms and is currently a member of CAGP's Government Relations Committee and Course Director for the Canadian Gift Planning Course. He is a columnist for the monthly newsletter *Gift Planning in Canada*, member of the editorial committee of *The Philanthropist*, and a Friend of CAGP.