Charitable Giving

A guide to philanthropic giving - today, tomorrow and for generations to come.

Looking at charitable giving and philanthropy from family, legacy and tax perspectives.

Among Canadians, Canada is often viewed as a society with a strong sense of philanthropy. In looking at the past 15 years, for example, the rate of Canadians who give to charities or non-profit organizations has remained above 80 percent, and just under half of Canadians give back through volunteering. But more specifically than being part of a country with embedded philanthropic values at the collective, national level, individuals may wish to consider philanthropy and charitable giving within their own families and in individual terms - what it means to them and how it may contribute to leaving a lasting legacy, how they want to give back, what the best approaches are, and how to maximize potential tax benefits.

Among many individuals, making charitable donations is a regular aspect of life, whether that's an annual gift to a charity they feel strongly about or to an organization that has helped a family member, or it may be more spontaneous through responding to a need for donations following a natural disaster, for example. Philanthropy, on the other hand, is a more strategic approach to charitable giving through establishing a long-term plan for giving, setting out an individual's or a family's goals and working to make that vision a reality. Plans may be very personal in reflecting the donor's convictions, beliefs and values and may require a greater commitment from those involved to monitor, carry out and evolve the plan.

To aid individuals in determining how philanthropic giving fits into multigenerational wealth transfer, we offer the following planning considerations:

1. Strengthening family values and a lasting legacy

An individual's motivation for giving is personal and can make a statement about who they are. Regardless of why individuals give, however, giving should be tailored to unique circumstances_ Individuals and families who engage in philanthropy have the opportunity to express their values and charitable objectives in a structured form.

Some families may want to consider establishing a family mission statement that includes charitable giving. Part of the process could include simply defining what motivates you to give back to the community. Whether it's events in your personal or family history, a strong sense of social responsibility, or hopes to make gifts that have the potential to transform or to be a catalyst for change, philanthropy can be a powerful defining feature in your family's value system. In this sense, it may also present an opportunity for families to develop a shared sense of motivation and purpose in giving back, which can become embedded through multiple generations and help to promote a lasting legacy.

From a multi-generational standpoint, turning a focus to philanthropic giving within the family could Include the involvement and education of younger generations about the role and value of philanthropy, and also gaining their insights about what they are passionate about when it comes to making a difference in the community.

2. Understanding the benefits of "planned giving"

Planned giving is formally defined as the donor-centred process of planning charitable gifts, whether current or future, that meet philanthropic goals and balance personal, family, and tax considerations. It presents an opportunity to plan your giving in much the same way as you plan contributions for retirement, insurance, and many other financial aspects of your life.

Developing a plan for giving offers a number of benefits, including budgeting and allocating funds in advance, being better equipped to manage unplanned requests for support from organizations, saving time and streamlining record keeping.

3. Building a philanthropic plan

Important first steps in developing a philanthropic plan are considering charitable donations you or your family have made in the past assessing the appropriate level of involvement in charitable activities based on your personal and family situation, and determining whether your interests in giving could develop into something more strategic. Additional key aspects to consider are what kind of charitable organizations you'd like to benefit, how much time you are able to devote to the endeavour, and whether you want to make it a long-term commitment. Examining these factors will help in building a realistic framework for strategic giving in the future.

When considering a philanthropic plan, individuals may have concerns around giving away too much, as it may sometimes be difficult to assess the impact of a large donation or of an ongoing series of donations on persona! resources. This is an area where a comprehensive financial plan developed with your qualified advisor can aid in helping you see the effect of a gift or a longer-term pattern of giving on your overall financial picture_ It may also help in determining the amount and timing of your gifts to ensure the optimal outcome.

4. Understanding and maximizing potential tax benefits

For charitable donations, donors may be able to claim a tax credit, which may result in significant tax savings, depending on their province or territory of residence. Part of considering the potential tax benefits that can be realized includes timing charitable donations appropriately; for example, making a charitable gift at the time you sell a property or your business, or when you exercise stock options may help reduce your tax liability resulting from those transactions.

Strategy	Description and potential tax benefits
Maximizing tax benefits of charitable gifts	Where possible, it is worthwhile to utilize the maximum available tax credits for charitable contributions. Generally, each year, you cannot claim a credit for donations exceeding 75 percent of net income. If you exceed the 75 percent limit, you may carry the excess forward for up to five years.
Making charitable bequests	Estates may claim a credit for gifts made by a Will or by designation under an RRSP, RRIF, TFSA or life insurance policy (not applicable for Quebec residents). Special rules allowing flexibility to allocate the donation for tax purposes may be available.
Naming a charity as beneficiary to a testamentary trust	By doing this or giving the trustee discretion to allocate funds to a range of beneficiaries that include a charity, the trustee could donate trust income or capital gains to a charitable beneficiary and the resulting tax credit may offset some or all of the taxes payable on the trust income.
Outright gift to charity	Direct donations are the most widespread form of charitable giving and allow givers to provide immediate financial support to the cause of their choice and to benefit In return from appreciable tax savings.
Charitable donations of securities	Donating a publicly listed security with accrued capital gains means donors will benefit from the elimination of the capital gain, plus the donation tax credit that donors are entitled to claim on their tax return. Presents a tax savings opportunity as opposed to first selling the publicly traded securities and then donating the proceeds_ In other words, it costs less to make a donation of securities instead of a donation of cash_
Private foundation	A registered charity frequently funded by a single source, group or family offering a personalized approach to giving. Can be flexible, as grants aren't tied to a specific charity and directors or trustees can award grants on a case-by- case basis. Can be substantial expenditure associated with setup and ongoing administration; crucial to properly assess time commitment and financial resources for charitable activities.
Donor-advised funds	Alternative to a private foundation that enables donors to make an irrevocable gift of cash or other assets to a fund administered by a registered public foundation. May be beneficial for those who want to create an enduring charitable legacy but not commit time and funds required for a private foundation. Donors receive a donation receipt equal to the value of the assets donated. Donors can recommend how contributions are managed and which charities are to receive grants, subject to foundation's final approval.

Note: This list is non-exhaustive and includes only a selection of strategies and options that may offer potential tax advantages. A financial plan may assist in providing a more comprehensive model for donations, it is crucial to consult with your qualified tax advisor to ensure your individual circumstances are properly considered and addressed and that options are best suited to your needs and goals. Furthermore, when considering a gift of securities, ii Is important to consult with the charity directly to determine whether they are able to accept this type of gift.

Tax credits in year of death

For most types of donations, an individual can claim charitable contribution tax credits for donations up to a maximum of 75 percent of net income in a taxation year. Where donations are made for deaths occurring after 2015, donations made by Will or beneficiary designation will be deemed to be made by the estate. The estate can claim a donation in the year a gift is made or in the five subsequent years. If the donation is made by a "graduated rate estate; the trustee of the estate will have increased flexibility to allocate the donation.