ETF insight

NOVEMBER 29, 2014

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Make your charitable giving more valuable

Lots of ways to donate than simply giving cash

For the third year in a row, Canadians have been more philanthropic than the year previous. According to the most recent BMO Charitable Giving Poll, 84 per cent of Canadians made a charitable donation in the past 12 months with the average gift being $624 - an increase of 8 per cent from 2013.

And, Canadians want this generosity to continue its upward trend. When asked about their 2015 plans, 90 per cent expect to make donations totaling $720. Interestingly, many also use their philanthropy as a teaching tool.

Another 2014 survey, commissioned by Imagine Canada, examined both generosity and attitudes about charitable donations. It found that one-third of donors wanted to set an example for their children or others about the importance of giving back.

While these data all bode well for the less fortunate, giving can also help the charitable organizations and donors. Cash donations are still the most popular way of giving, but both charity and donor can benefit from more tax efficient ways of achieving their philanthropic goals.

Gifting publicly listed securities, such as stocks, bonds, and mutual funds to registered charities is one way. A donor who sells the shares of appreciated securities, and donates the cash, is taxed on capital gains. However, if the shares are donated directly, the charity issues a tax receipt based on the fair market value of the securities. The charity gets the full value of the shares and the donor gets a full value tax credit without the imposition of capital gains taxes.

Efficient philanthropy is also achievable with RSPs, where the donor names a charity as beneficiary of their registered plan. On death, the balance of the plan transfers directly to the charity, and the estate receives a tax credit for the value on disposition. This can offset taxes on final income and effectively bypass probate fees. Flexibility is another advantage because the donor can change the beneficiary if circumstances change.

Similarly, insurance can be used with a charity named as beneficiary. When the donor passes, the charity receives the policy's cash surrender value plus any net accumulated dividends and interest. The resulting tax credit can be applied to a final tax return.

Donor Advised Fund funds set up endowments wherein the donor makes an irrevocable contribution of cash and other assets, which are invested to maximize the worth of the donation and increase its value. Investors can set grant recommendations and choose which registered charities receive donations. In return they are provided with an immediate tax benefit that can be carried forward up to five years, and they have a continuing philanthropic legacy.

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Those wishing to donate to a charity but still needing income can use a Charitable Remainder Trust. Assets are transferred into a trust and the donor gets an immediate tax benefit. The donor receives lifetime income and the charity receives the assets when the donor dies.

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