NATIONAL POST
FINANCIAL POST

DECEMBER 2, 2010

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More than one way to give to charity

Forget cash donations, give securities instead

Charity was a hot topic this year with the announcement of the Giving Pledge. Created by Bill and Melinda Gates and Warren Buffett, it invites affluent American individuals and families to commit the majority of their wealth to philanthropy.

Canadians are also philanthropic. According to a BMO Harris Private Banking survey, 76% of high net-worth Canadians believe in giving back to their communities. Of those surveyed, 59% report that the current economic environment has not affected their charitable giving, and 89% of those who hold a business as an investment vehicle state that giving back is important to them.

Some Canadians still "think cash" and simply write a cheque to their favourite charity, even though it's often more tax effective to use securities. An investor with capital gains from appreciated stocks can offset tax implications arising from the eventual sale of the positions by donating shares to a registered charity.

Some investors are shy about using the tax incentives, thinking it lessens the generous aspect of their giving. It doesn't. If the investor sold the shares and paid capital gains taxes, they would be left with a smaller gift to give than if they had simply donated the shares. Reducing the financial burden of giving helps the donor and the recipient.

One option is a Charitable Giving or Donor Advised Fund that sets up an endowment wherein the donor makes an irrevocable contribution of cash and other assets. The contributions are then 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.

Investors can have their estate leave a legacy by naming a charity as the beneficiary of registered plans. The balance of the RRSPs or RRIFs transfer directly to the charity after death, and the estate receives a tax credit for the value on disposition. This can help offset the tax on income and will effectively bypass probate, furthering benefits to the estate.

The proceeds of life insurance can be donated by naming a charity as the beneficiary of a permanent life insurance policy. The charity receives the policy’s cash surrender value plus any net accumulated dividends and interest upon death. In return, the executors receive a tax credit for the value of the donation, which can be applied to a final tax return with a provision to carry back any unused portion to the preceding tax year.

Another way to use life insurance is by designating a charity as the owner of the policy. All premiums paid to the policy after donating it to the charity provide ongoing tax credits, however no further tax credits accrue to the estate. Choosing an insurance option requires analysis based on expected mortality and expected income in the donor's final year.

A Charitable Remainder Trust (CRT) is most beneficial to older donors who would like to transfer an

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asset to a charity but still require its income. A CRT sets up conditions wherein the donor continues to receive income and the charity receives the property after a prescribed period of time or upon the donor's passing. There is an immediate tax credit from the donation but the younger the donor is, the lower the value of the charitable tax receipt.

When reviewing your charitable giving strategies, be sure to seek advice from a qualified tax professional.

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