

Charitable Gift Planning

Agenda

1. Values, Priorities & Planning
2. Charitable Planning Tools

Values, Priorities & Planning

Values & Priorities

- a good estate plan should be shaped by values and personal priorities
- tax incentives only support existing values and personal priorities

Factors shaping values

Religion

Family & Upbringing

Charitable Giving

Culture

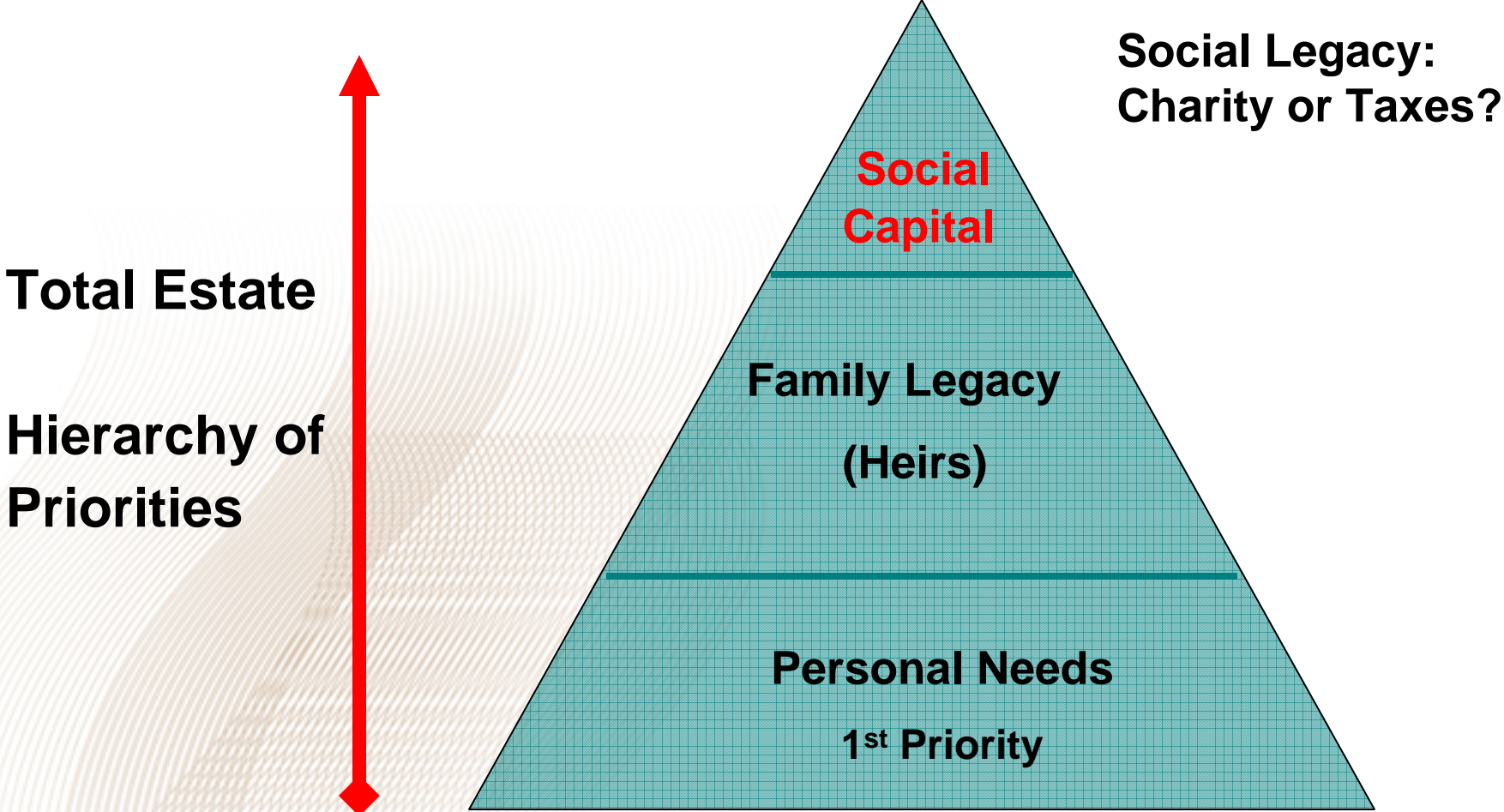
Volunteerism

Education

Life Experience

Dreams

Values-Based Planning



Tax Incentives for Giving

- since 1996, tax incentives for charitable giving in Canada have been dramatically enriched
- unprecedented opportunities to donate and plan gifts
- represents a significant shift in Canadian social policy

Gifts of Assets

Key trend in Canadian philanthropy is gifts of assets

- 17 new incentives in the Canadian Income Tax Act to encourage gifts of assets from individuals since 1996
- Including:
 - Contribution limit for lifetime gifts = 75% of income
 - Contribution limit at death = 100% of income
 - Nil capital gains inclusion rate for:
 - gifts of publicly-listed securities
 - employee stock options
 - ecologically sensitive land
 - Direct designation of RRSP/RRIF assets and life insurance - benefits
 - Split receipts – re annuities & mortgaged property

Priority of Charity

Is charity a high or low priority in your estate plan?

- The priority you place on charity will determine *how* you give

Remember: you don't make money by giving it away!

Your Options

Donors often support a cause due to a particular personal experience & want to designate their gift to the area that has touched them most

Planning Tip:

When making a planned gift, make sure you speak to the charity to ensure your wishes can be fulfilled.

- correct legal name of charity
- designation options
- recognition options: during life and after death
- named endowments
- planned giving information
- financial information

Planning Tools

Planned Giving = Gift Planning

Planned Giving is “the process of designing charitable gifts so that the donor realizes philanthropic objectives while maximizing tax and other financial benefits.”

- Frank Minton and Lorna Somers,
Planned Giving for Canadians

Characteristics of a Planned Gift

1. Usually made from assets rather than income, hence tend to be large
2. Made in consultation with legal and financial advisors and with reference to overall estate plan
3. May be outright or deferred
4. Balances personal and family needs with philanthropic wishes
5. Tax effective

Charitable Planning Tools

1. Bequests
2. RRSPs/RRIFs
3. Public Securities
4. Charitable Gift Annuities
5. Charitable Remainder Trusts
6. Life Insurance

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:**
 - Can be cash or specific assets, such as stock or real estate
 - Can be delayed using testamentary trusts -- spouse or dependant use income/capital for life or term and residue goes to charity

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

- Estate Trustee is the person or company named to carry out the instructions contained in the Will
- Estate administration is often very complex and time consuming
- Estate trustee should be resident in the Province
- Professional estate trustee, such as **Scotiabank**, provide expertise, continuity, peace-of-mind administration
- Scotiabank offers tax and estate planning tools such as **testamentary trusts**
- Scotiabank provides full, no-cost, tax-effective estate planning to its clients

2. Gifts of RRSPs/RRIFs

- Possible to make a gift of RRSP/RRIF plan assets, at death, to charity
- charity is named beneficiary on plan documents
- can give part or all of assets to charity, e.g. 50%
- assets pass straight to charity
- 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

Advantages: RRSPs/RRIFs

- easy to change plan documents
 - register with plan trustee
 - consider in light of other estate plans with advisors
- not all plan administrators will carry out direct designation – Scotiabank/ScotiaMcLeod will
- same tax benefits as a bequest

Priority of Charity: Alternative to bequest; valuable tool when charity is lower priority than family beneficiaries

3. Gifts of Public Securities

- appreciated **stocks, bonds, and mutual fund shares and units** that are listed on major exchanges or have regularly published values
- **Extra tax incentive:** pay no capital gains -- 0% v. 50% inclusion rate
- up to 24 cents cheaper than an equivalent gift of cash (depending on province)
- most tax-effective way to make a current gift and a bequest

Gifts of Public Securities

- security must be given *in specie* (ie transferred to charity by broker in its original form, not cash)
- best to transfer electronically

Priority of Charity: stocks are method of giving a low-cost current or future gift that balances family and personal priorities

Gift of Public Securities

- Peter Mitnik, a retiree who invests, wishes to donate \$100,000 to his alma mater
- he has stock that he paid \$50 for and is now \$100 per share
- should he give appreciated stock or cash?

Gift of Public Securities

Amount of gift	\$100,000
Cost base of stock	<u>\$ 50,000</u>
Capital gain	\$ 50,000
Tax credit @ 45% of gift	\$45,000
Gain recognized @0% (v 50%)	\$0
Tax on gain @45%	\$0
Net tax saving (\$45,000 - \$0)	\$45,000
Tax Benefit to Donor (\$45,000+\$11,250)	\$56,250
Tax savings gift of stock v. sale	
+ gift of cash (\$45,000 v. \$56,250)	\$11,250

4. Charitable Gift Annuity

- life-income gift
- combines immediate gift with commercial annuity that makes payments to donor for life
- available to donors age 70+
- one or two lives
- minimum \$10,000

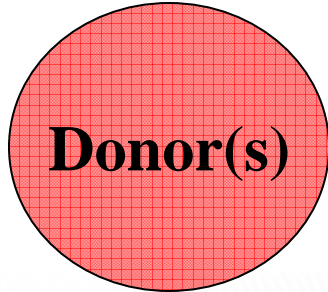
Charitable Gift Annuity

- Charity and donor have a contract; donor exchanges cash for future payments – for life or a term
- Income from annuity is only partly taxable
- Income is higher than other guaranteed investments, such as GICS
- Donor gets tax receipt for gift portion
- Please note: donor is giving up capital!

Priority of Charity: balances desire to make immediate gift with improved income – no change in lifestyle

- Can be used instead of bequest or to advance payment on a bequest

Charitable Gift Annuity



Donation receipt based on balance leftover after annuity purchased

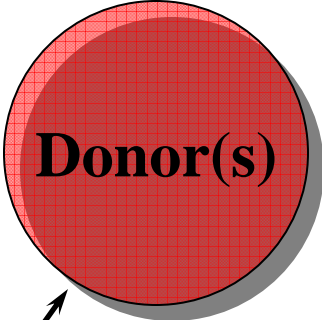


25%-30% for charitable purposes



70%-75% of amount contributed

Balance of contribution used for charitable purpose.



Gift Annuity: Example

- Mrs. Jones, age 78, would like to make a gift and improve her income
- donates \$10,000 for gift annuity

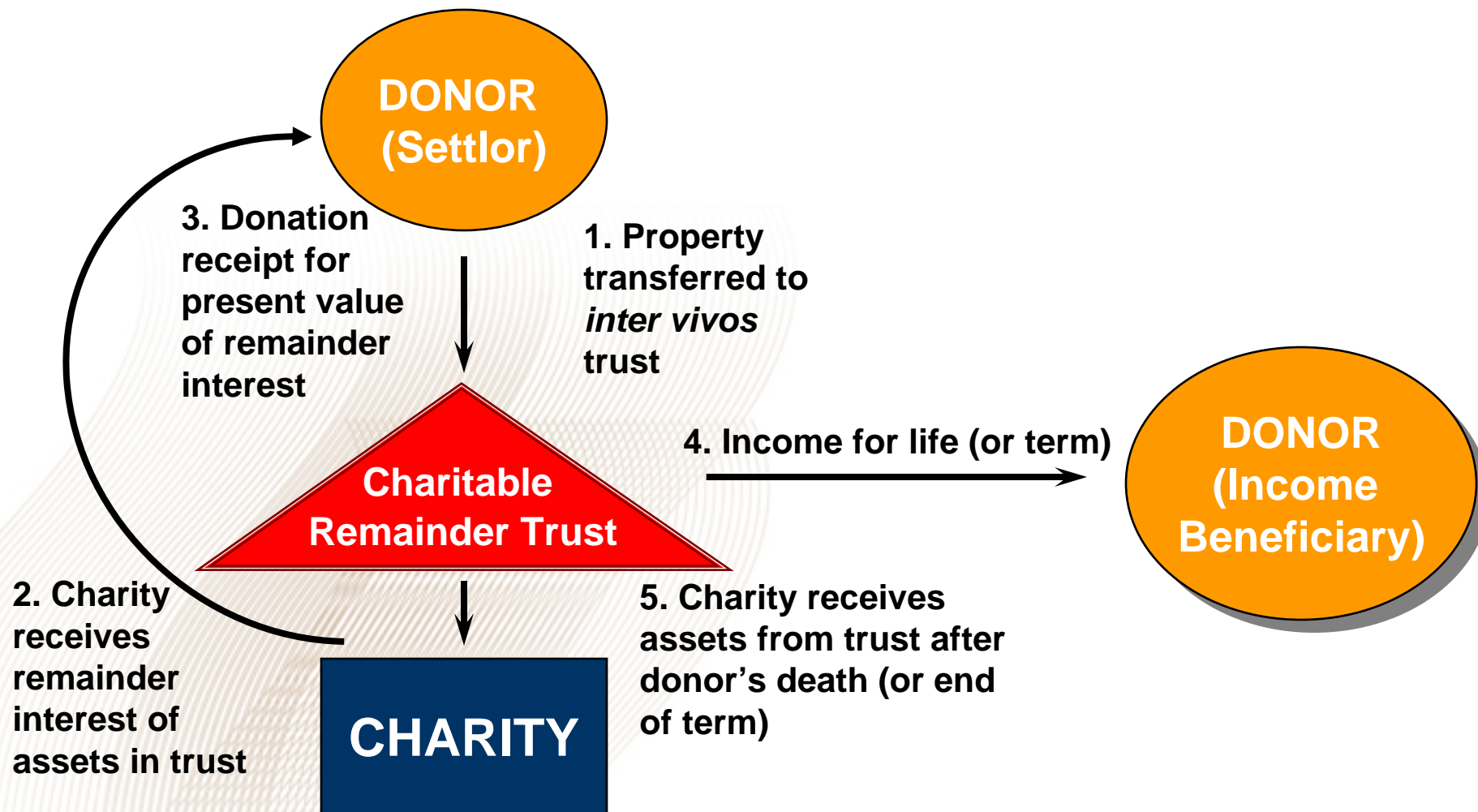
Result:

- she receives 70% tax-free income for life, payable directly to her bank account of \$640 per annum (= 6.4%)
- receive charitable receipt of \$3,200 (32% of amount transferred)
- Charity receives an immediate gift of \$3,200

5. Charitable Remainder Trust

- life-income gift for donors age 70+
- donor transfers property to trust & receives income from trust for life
- donor receives current donation receipt for the *present value* of the remainder interest of the trust
- when donor dies, the trust assets are distributed to the charity
- recommended minimum: \$250,000

Charitable Remainder Trust



Advantages of CRT

- Best for donors making existing bequest to charity in their Will
- allows bequest donors to claim future gift today; maximizes claim room for donation tax credits
- sophisticated tool for tax planning when funded with appreciated assets
- highly private and resistant to challenge
- not subject to probate
- Scotiatrust will serve as trustee and do set-up

Priority of Charity: balances personal & tax needs with charity; save taxes that may be lost with bequest

CRA Requirements for tax receipt

Must be Inter vivos, non-discretionary CRT where:

1. Irrevocable transfer.
2. Property must vest with recipient charity at time of transfer.
3. Value of residual interest must be ascertainable.
4. Charitable beneficiary/ies must agree to issue official receipt for income tax purposes.
5. No encroachment on principal. (Trustee fees and admin expenses must be paid out of trust income.)

Target Donor Profile

Individuals age 70+:

- net worth of \$1 million+
 - may be less if no dependants and high proportion to charity
- intends to leave at least 25% of estate to charity
 - tax timing plan
- can comfortably give up access to capital in trust
- desire for probate planning
- desire for privacy
- fear of estate challenge

Use of CRTs

The primary use of the CRT in the current Canadian context is tax timing:

- Philanthropic clients often generate large tax credits that can't be utilized in the final two tax returns.
- A CRT moves the tax benefits forward to provide immediate tax savings, while providing ongoing income from the donated asset.

Advantages & Disadvantages

Advantages:

- Increased income due to tax credits
- Income from donated asset
- Lifestyle is unaffected
- Charitable beneficiaries unchanged

Disadvantages:

- Trust is irrevocable
- Loss of access to capital

6. Gifts of Life Insurance

- leveraged giving tool
- donor makes modest current payments to fund significant future gift
- age range: 40- to 75-years-old
- one of the most flexible planning tools
- death proceed pass tax free to heirs

Gifts of Life Insurance: uses

- life insurance enables donors to make future gift without reducing inheritance by family
- tax receipt can be used to offset taxes at death, which can increase total value of estate
- LI can also replace asset in estate that is donated today – “wealth replacement LI”

Life Insurance basic plans

1. charity is owner and beneficiary

- donor gets donation receipt today for premium payments
- no receipt when proceeds go to charity at donor's death

2. charity is beneficiary; donor is owner

- donation receipt for proceeds
- treated as bequest for tax purposes
- maximum flexibility for donor