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Charitable Giving

Making the most of your gift.



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The Joys of Giving

Some basic statistics:

- Approximately 25% of Canadian taxpayers give to charities in any given year
- More than 80% have given made a donation within the last five years.
- Annual donations top \$4.8 billion.
- Older Canadians are more likely to give larger amounts.

Source: Advocis (2009)

Charitable Giving

With planning, you can make your donation money go further and provide your charity with a larger benefit for each dollar you give.



What is a Gift?

Under the CRA guidelines, a gift to charity is provided special tax considerations and must qualify as “voluntary transfer of property without valuable considerations”

A gift must be made without an expectation of return.

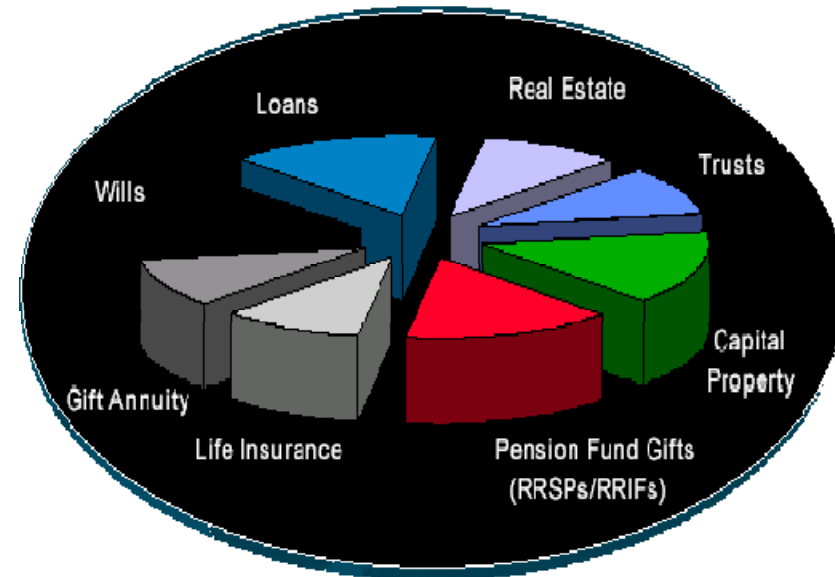
What qualifies as a Charity?

- There are many types of organizations that have been approved by CRA to issue charitable receipts. Some are as follows:
 - Registered Charities (including Canadian universities and colleges)
 - Registered Canadian amateur athletic associations
 - Public and private foundations
 - Certain non-profit organizations
 - United Nations and related agencies
 - Canadian and provincial governments, crown foundations, municipalities
 - Approved foreign universities
- A donor can confirm if the charity is legitimate by calling CRA directly with a registered number.

Elements of Charitable Giving

There are numerous methods a donor can use when using a planned giving program

- Set aside annual cash amounts for the charity.
- Give part of their investments or securities. Typically registered plans, stocks, bonds and real estate.
- Purchase an annuity, this can provide annual gifts to a charity during the clients lifetime, then receive the balance when the client dies through their estate.
- Purchase a life insurance policy and leave it to the charity.
- Donate proceeds of an existing life insurance contract.



Donating Cash

Advantages

- No obligation to commit for future time or resources to the charity.
- Donor receives a tax credit.
- Involves little planning.

Disadvantages

- No tax advantage for donors with large amounts. (Taxable income may not be great enough to be used for the entire deduction or credit).

Donating Gifts in Kind

Advantages

- A simplified means of transferring property from the donor to a charitable organization.
- A tax receipt can be issued once the fair market value of assets are determined.
- Donor does not have to cash in or sell property in question.
- Shares of publically traded companies are not subject to the 50% capital gain tax realization, if directly donated.

Disadvantages

- Except for shares of publically traded companies, the donor must pay 50% of capital gain realized in the year of disposition (eg. Art, property, etc.)

Donating Registered Plans (RRSPs, RRIFs)

Advantages

- Donor retains complete control over assets until death.
- Donor has access to funds if needed.
- Donor can change beneficiary information if he/she does not want to contribute to the charity any longer.

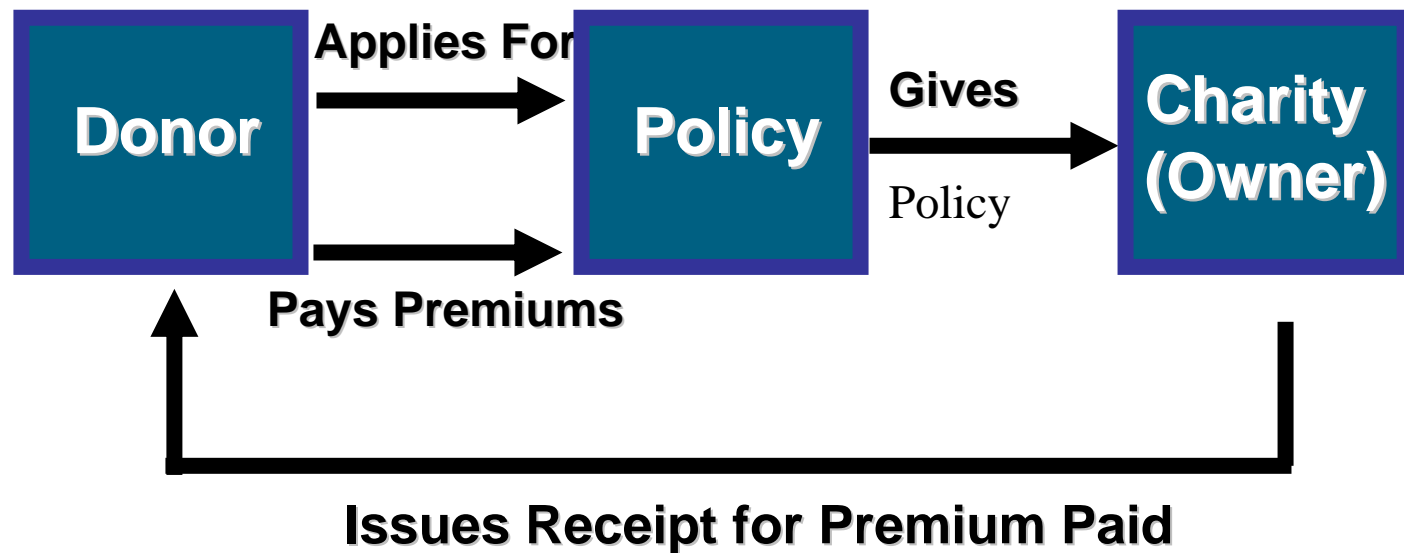
Disadvantages

- Value of the registered plan is considered income in the year of death.
- Charity treats the amount as an ordinary gift which would mean 80% of the amount received must be spent by the end of the next fiscal year.

Charitable Giving using Life Insurance

Strategy # 1

Donate New Policy to Charity



Charitable Giving using Life Insurance

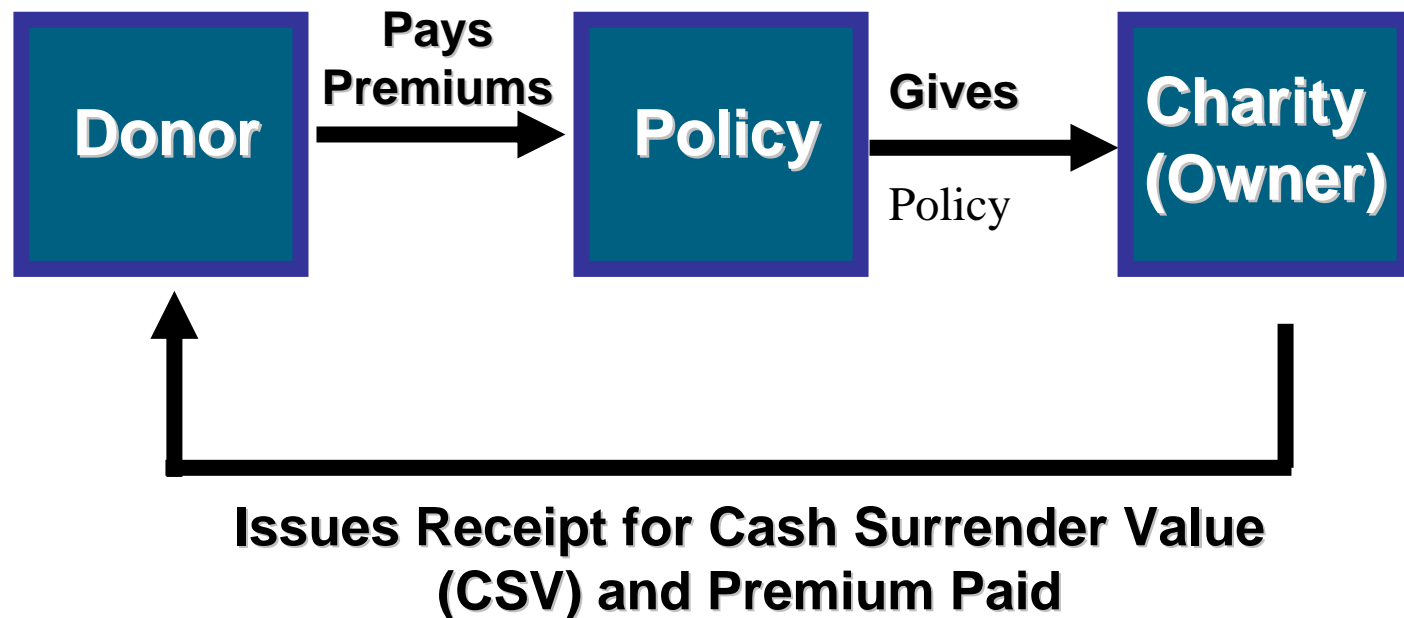
Strategy #1 - Annual (Insurance Premium) Donation Credits

- The donor arranges to purchase a life insurance policy.
- The Charity is named as the owner of the insurance policy and also the beneficiary. Charity will receive the insurance proceeds upon donor's death.
- The donor makes regular payments to the charity for the life insurance premiums.
- The donor would receive a charitable tax receipt for each premium payment made to the Charity to pay for insurance costs.
- When the donor passes away the insurance benefits are paid to the Charity (beneficiary).

Charitable Giving using Life Insurance

Strategy # 2

Donate an Existing Policy to Charity



Charitable Giving using Life Insurance

Strategy #2 – Donate an Existing Insurance Policy to a Charity.

- Charity is named as owner and beneficiary.
- Charity issues a receipt equal to the cash surrender value of the policy at the time of the ownership transfer.
- Donor may continue to pay premiums which can qualify as charitable donations.
- This solution works well with policies that are paid up or require no additional deposit commitments.



Charitable Giving using Life Insurance

Transferring Ownership of An Existing Policy

Advantages

- Can provide an affordable means to leave a very substantial gift to charity.
- Insurance contract is owned by the charity.
- The proceeds will pass directly to the charity upon the donor's death, no possibility of the heirs or creditors contesting it.
- Charity is deemed to be both owner and beneficiary of the policy, the donor receives donation receipts for the cash surrender value at the time of the transfer and premiums paid during the donors' lifetime.

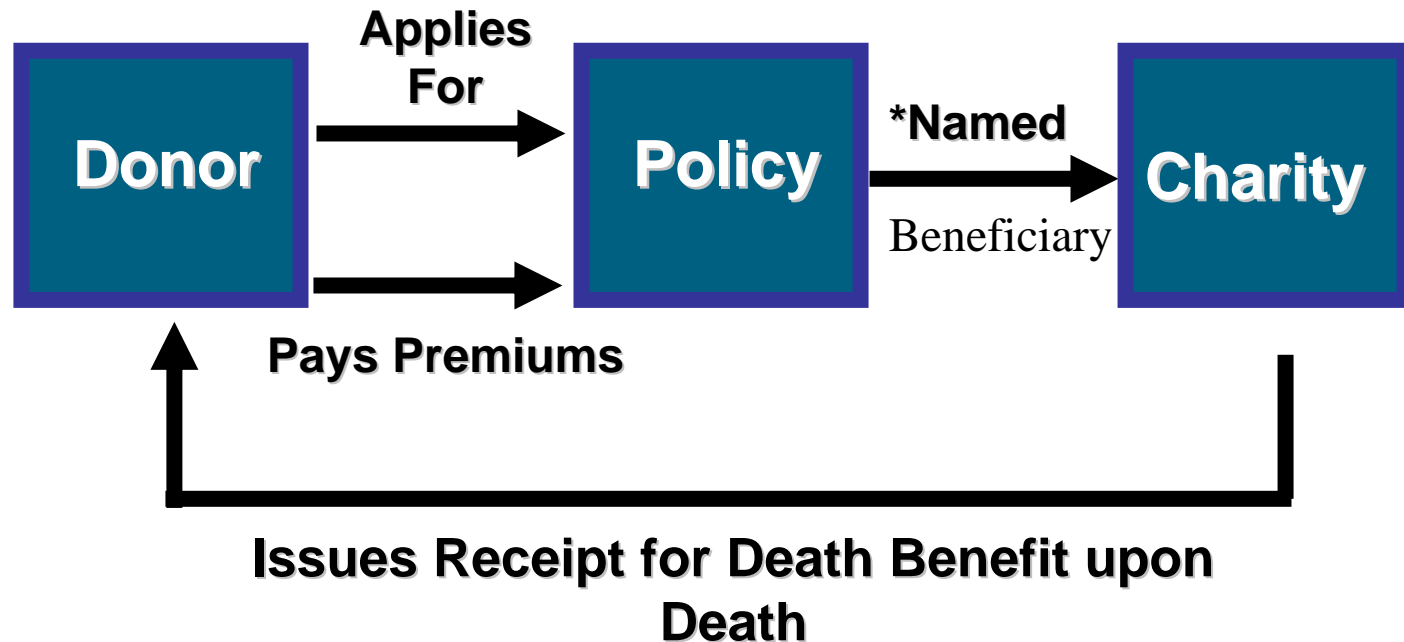
Disadvantages

- All interest in the policy is transferred. Once the charity owns the insurance policy it becomes irrevocable.
- Transfers of ownership may result in a taxable disposition of the insurance policy to the donor.

Charitable Giving using Life Insurance

Strategy # 3

Donate Insurance Policy Proceeds



* Could also name estate as beneficiary and have estate direct funds to charity

Charitable Giving using Life Insurance cont'

Strategy #3 - Donate Proceeds at Death

- The donor owns the life insurance policy and the charity is named as the beneficiary (or have estate direct the proceeds).
- Donor has control of the policy in case he/she wants to make any changes.
- The donor does not receive annual or periodic charitable receipts for the premium payments during their lifetime.
- A charitable tax receipt equal to 100% of the policy value will be issued to the donor upon death. The executor can claim the receipt on donor's final tax return or carry back any unused portion.

Tax Guide for Charitable Donations

- Federal tax credit of 15% and from 4% to 11% from provincial/territorial credits on the first \$200 donated.
- Federally the credit is 29% on any amount above \$200, plus between 11% and 21% provincially.
 - Individuals at the top income level can receive tax savings ranging between 39% and 50% (depending on the province) for every dollar donated over \$200.
- Donor can claim an amount for total donations of up to 75% of net income.
- Donors can claim total donations up to 100% of net income in the year of death and the preceding year.

Tax Guide for Charitable Donations

Under the rules and guidelines of Canadian Revenue Agency (CRA).

- Charities are required to spend at least 80% of all donations. This is called the “Disbursement quota”
- Rule is to ensure that a fair amount of the charity’s income is being used for the charitable purpose and not any other reason.
- Exceptions to the rule is as follows:
 - Donations received via bequest are exempt
 - Gifts donated from other charities are exempt
 - Gift can not be disbursed for 10 years. Under this exemption the charity issues a tax receipt to the donor in the year the funds are given to the charity.
 - Charity is not required to include the amount of the gift in the calculation of its required disbursements, a figure that the organization is required to report back to the CRA.

Case Study

Mrs. Smith makes frequent donations to her local charity. Even though she gives regularly, she would also like to give the charity a special gift of \$500,000 when she dies. Life insurance is an effective way to plan for this gift.

The Insurance Solution

| | |
|--|--|
| Mrs. Smiths' personal information | Female, 65, non smoker, in good health |
| Permanent life insurance with guaranteed level costs | |
| Death Benefit to Charity | \$500,000 |
| Personal Tax Rate | 45% |
| Assumed life expectancy * | Age 87 |
| Cost of Life Insurance ** | \$1,031 per month |

By paying \$1,031 per month, Mrs. Smith has guaranteed the charity receive \$500,000 gift. As an alternative for using the term product, Mrs Smith could invest \$1,031 into a taxable investment. Assuming the investment earned 6% each year and that she dies at her life expectancy, the investment would be worth approximately \$356,000. By using life insurance, Mrs. Smith has been able to increase the size of the gift by \$144,000.

* Annuity 2000 Mortality Table, Society of Actuaries

** Source: Manulife Financial, Innovision, May 2009.

Charitable Giving Using Annuities

The Charitable Annuity Strategy is designed for those who wish to have a guaranteed income for life, and yet make regular donation to a charity during the clients lifetime.



How Charitable Giving With Annuities Works

Single Deposit Payout Annuities

- Donor provides the charity with a single lump sum amount, charity will provide a fixed amount of income back to the donor for a specified term or for life via an annuity that the charity purchases.
- Donor receives a tax credit for part of the original donation, and the only the interest portion on each annuity payment received is taxable.



Charitable Insured Annuity

Charitable Insured Annuity

- Donor buys an annuity.
- Donor uses part of the monthly payments to pay premiums on an insurance policy.
- Charity is named as owner and beneficiary.
- The client receives an income over their lifetime as well as tax credits for the insurance premiums they pay.
- Upon donors' death the charity receives the insurance proceeds.

Charitable Insured Annuity

Advantage

- The income from a charitable gift annuity is guaranteed for life.
- Donor can receive immediate donation receipt.
- Investment management services or administration fees do not apply to annuities.
- Charitable annuity allows the donor to give during their lifetime rather than donating gift after the donor has died.
- Only a portion of the annuity is taxed to the donor.

Disadvantage

- Once the charitable annuity is established, they are irrevocable.

Inter Vivos Trust

This strategy is ideal for affluent Canadians wanting to provide large gifts to a charity.

How it works

- The donor is looking to secure both income and meaningful tax relief during their lifetime.
- The charity obtains immediate legal title to the property without having to worry about the donor wanting to change his/her mind.
- The donor is considered to have disposed of the property upon transfer and may realize a capital gain or loss.
- Trust documents instruct the trustee to pay all of income earned within the trust to the individual but requires the property to be transferred to a charity at some time.
- Once the charity is named as the beneficiary of the trust, it cannot be removed or revoked.

Please note: Donor should always work with an estate and trust lawyer

Inter Vivo Trust

Advantage

- Provides significant tax relief during the donor's lifetime.
- When the trust is established, a tax credit is issued back to the donor based upon the trust's residual interest. Calculation based on the fair market value and donor's life expectancy.
- Once assets are donated to the trust, any income generated can be paid back to the donor.
- The income will not receive tax treatment, the donor will benefit from the underlying assets that will pass on to the charity.
- The donor retains control of the assets within the trust.
- Upon death of donor, assets are held in the trust, and are not subject to probate and estate administration fee.
- Donor can elect the proceeds of disposition on the asset transferred into the trust provided it is not greater than the market value and not less than the adjusted cost base. The chosen amount is also used to determine the amount of the charitable receipt.

Disadvantage

- Trusts may be complicated and require the expertise of a lawyer.
- They are expensive to set up and maintain. (Note: donors should only consider this option when planning gifts of over \$200,000.)
- The beneficiary cannot be revoked
- Once capital is donated to the trust, it cannot be removed. (The donor may redirect assets, but the underlying principal amount cannot be taken,
- Income from the investments held within the trust is taxable in the donor's hands until death.
- Because of the difficulty in valuing the "residual interest" of some assets, professional advice should be given before choosing the assets to be transferred into the trust.

Wealth Replacement Strategy

This is ideal for individuals who would like to donate assets to a charity without giving up the value of the estate left to their heirs.

How it works

- Donor purchases a life insurance policy on their life.
- Their heirs are named beneficiary.
- The idea is by purchasing a life insurance policy for the amount of the death benefit the face value of the life insurance policy is equal to the fair market value of the asset that will be donated to charity.
- The donor donates the assets to the charity while alive or upon death.
- Upon the donors' death, the heirs receive the proceeds of the insurance policy in cash, in lieu of the asset donated to the charity.
- The heirs receive equal treatment according to the donor's wishes.

Wealth Replacement Strategy

Advantage

- The beneficiaries receive the proceeds of the insurance policy tax-free and in cash.
- The transition of assets may be simplified by avoiding probate and estate administration fees when naming beneficiaries.
- Heirs receive the proceeds in a timely manner.

Disadvantage

- Because of fluctuations in the market value of an asset, the value of the policy may be less than the value of the asset donated to the charity.

Everything gone is never gone for it is the beginning for new things to begin



Thank you

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