Charitable Giving

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What's on your "bucket list"? Whenever I'm helping my clients to plan for the future, I find most have some desires they feel retirement will allow them to fulfill; things they didn't have the time or money for during their working years. Very often, doing something charitable is on the list. What stops them? Not knowing how it can be done effectively and worrying that it will impact their ability to live comfortably or help their family. With some added creativity of charities and more beneficial tax laws, it's now surprisingly easy to leave a legacy to benefit the charities of your choice. In fact, with a little planning, you can often reduce your taxes enough so your heir still receive close to what they might have without the donation. Nor do you have to wait until death to implement these strategies. Here are some guidelines and tips on how you can keep the funds you need to live, pass some to your heir, yet still benefit your charities in need.

1. Donate stocks or mutual funds directly. With the enhancement of the charitable giving tax credit, if you donate items that have capital gains directly, you do not have to pay tax on any of the capital gain. That's right, no tax whatsoever!!! On top of that you still get a charitable donation tax credit. Here's an example:

	Sell the stock and donate the cash:	Donate directly to charity:
Donation	$50,000	$50,000
Less: Book Value	$20,000	$20,000
Net Gain	$30,000	$30,000
Taxable Gain (50%)	$15,000	$0
Charitable Tax Credit	$23,000	$23,000
Tax Payable (50%)	$7,500	$0
Net Savings	$15,500	$30,500

Reduced tax bill by $30,500
Net Benefit: $15,000 by donating stock directly.

Most charities can accommodate this, and all they request is that you make the donation of a size where any fees that incur don't eat up large portion of the donation. I usually recommend a min of $500 or $1000.

In some cases, I've had clients that gave $1000-2000 to a number of charities each year. We restructured this to give $500 to 1-2 each year instead and donated shares. The benefit was they gave the same amount, all the charities still benefitted, but cash flow improved as they simply sold something that would incur a taxable gain, and kept the cash, while reducing their tax bill.

2. In a year where you have substantial capital gains, such as stock takeover, or took some profit off the table consider establishing a charitable foundation. This means, your larger donation stays invested and provides income for the charities of your choice for many years to come. The funds are professionally managed and the primary requirement is that the foundation be set up for a minimum of 10 years. For a minimum contribution of $25,000, you can donate some stock directly.

It provides you with an immediate charitable tax credit, and waives the tax on any capital gains of the item you donated. This can really reduce the amount of taxes you would incur from simply triggering any gains without any strategy to reduce them.

The benefit of a foundation is they can now be done for a nominal annual fee as more organizations of organization have set up that is "user-friendly". Many larger charities now have these options at lower cost. However, if you wish to donate to multiple charities, then the best way of ensuring they get funds on a continuing basis is to use a Community Foundation, or possibly consider a Mackenzie Foundation. The community foundation is an option in some of the larger cities in Canada, they have the expertise to hold these charitable funds and have them professionally managed to allow your donation to carry on and be directed as you wish ongoing. Mackenzie Financial has partnered with Strategic Charitable Foundation to provide an option where you can still work with your advisor in the guidance of the funds, but still ensure the annual allotments are allocated to the charities of your choice. Both options have low cost, and are easy to set up and maintain as the expertise is all in-house. They even prepare the tax returns, and do all the paperwork.

3. Donate to your charities through your will. By planning a donation through your estate, it is extremely effective in reducing taxes. This means more estate left to your heirs and less to the CRA.

4. Assign a charity as a beneficiary for a percentage of your registered assets. By assigning it directly on your RRSP or RRIF, you avoid the probate tax, but also ensure it applies on your final tax return allowing for a substantial tax benefit. If you have a RRSP of $200,000 on death, and you left $50,000 of it to a charity and the balance to your 2 children, the $200,000 is added to your final tax return. Let's assume there is already a $50,000 of regular income. $250,000 taxable income pays $98,000 to Revenue Canada in Ontario. Each child receives $51,000.

   With the charitable donation of $50,000, the tax saved is $23,000. Revenue Canada receives $75,000, & each child now receives $37,500. Simply use this strategy to ensure Revenue Canada is not your single largest beneficiary by far. It can work effectively as there is no maximum charitable donation on your final tax return, as that is the one time the Alternative Minimum Tax rule doesn't apply.

   For more information on Community Foundations, go to www.cfc-fcc.ca. I also recommend speaking with your Financial advisor to discuss what you'd like to accomplish, and what impact it would have on your current cash flow needs and/or the distribution of assets, through your estate. Often, we can enjoy the option of leaving a legacy, and still help our families over time

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