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STRATEGIES

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3 ways to see the impact of your charitable giving now

As part of your estate plan, you may have included certain bequests to your favourite charity such as your university or a hospital. While doing so can give you satisfaction in knowing the charity will benefit from your generosity one day, wouldn't it be nice to see the impact of your donation while you're still alive and realize the tax savings of your gift now?

While many donors include the major charitable gifts they wish to make in their estate plan, there's a growing trend towards giving-while-living philanthropy. Three of the more common "giving-while-living" options are donations made through tax-free savings accounts, charitable remainder trusts and private foundations. Here's a summary of how each option works along with some of their advantages and disadvantages.

Tax-Free Savings Account

What is it?

A tax-free savings account (TFSA) lets you grow your investment portfolio on a tax-free basis (without paying tax on the income your investments produce). TFSAs were introduced in 2009, and there's an annual limit on the amount you can contribute (for example, as of 2018 the cumulative total contribution you could have made to your TFSA is $57,500). While you do not receive a deduction for the contributions you make to your TFSA like you would for an RRSP, any investment income earned in your TFSA (e.g., interest, dividends, capital gains) is tax-exempt, which allows your TFSA to yield a greater net income than a comparable taxable investment account. You can withdraw funds from your TFSA without any tax consequence.

How does the donation work?

Let's say you wanted to donate $10,000 to your favourite registered charity. If you chose to use your TFSA you could do the following five step process:

1. Withdraw $10,000 in cash or investments from your TFSA.
2. Donate the $10,000 to your favourite registered charity.
3. The registered charity would then issue you a charitable donation receipt for $10,000.

INSIDE

4. Your $10,000 charitable donation receipt could result in tax savings of up to $2,900. In some specific cases, your tax savings could increase to $3,300.
5. In the year following the withdrawal from your TFSA, you could contribute either your tax savings or up to $10,000 to replenish your TFSA balance. The investment income generated from this new contribution to your TFSA account would be tax-exempt and continue to accumulate. (Note that excess contributions to your TFSA could be subject to a penalty, so proper planning is required.)

What are the advantages and disadvantages?

Making a contribution using your TFSA is a relatively simple and cost-effective way of making a charitable donation.

Aside from the loss of potential tax-sheltered income for a short period of time, there is no real disadvantage to donating from your TFSA.

Charitable Remainder Trust

What is it?

A charitable remainder trust is a unique tax planning vehicle that can be used by individuals for their benefit and the benefit of their favourite registered charity.

How does the donation work?

The unique feature of a charitable remainder trust is that both the settlor of the trust (i.e., the person responsible for establishing and contributing assets to the trust) and their registered charity of choice are both beneficiaries of the trust. As an income beneficiary, the settlor (i.e., you) would be eligible to receive any income generated by the assets held in a charitable remainder trust. For example, if you contributed publicly traded, dividend-paying stocks to a charitable remainder trust, you or another named income beneficiary could continue to receive these dividends while you are alive (e.g., to fund your retirement). Your favourite registered charity, as a capital beneficiary, would receive the remaining assets in the charitable remainder trust when you pass away.

When you transfer assets to a charitable remainder trust, you'll receive a charitable donation receipt equal to the fair market value of the charity's residual interest in the trust (i.e., the projected value of the assets remaining in the trust when you pass away). You can then use the charitable donation receipt to reduce your current personal taxes. As an added benefit, if you donate publicly traded securities, your deemed capital gain on this transfer would be reduced to nil. There are also special rules for gifts of publicly traded securities acquired using stock options.

What are the advantages and disadvantages?

The advantage of using a charitable remainder trust is that you can donate investment assets and receive the tax credit while continuing to enjoy the income generated by those assets, which will eventually be passed on to your registered charity.

The disadvantages of using a charitable remainder trust are the potential complexities and costs. The creation and administration of a trust require professional assistance and annual compliance costs (e.g., filing the trust tax return). You will also need to have the charity's residual interest in the trust assessed in order to determine the dollar amount of your charitable donation receipt.

You should also consider the tax consequences of transferring assets to a charitable remainder trust since you are deemed to have disposed of these assets; therefore, any unrealized capital gains would become taxable to you.

Private foundation

What is it?

A private foundation is a non-profit entity established by an individual or family to carry out their philanthropic wishes. Private foundations are also registered as charities with the Canada Revenue Agency (CRA) so that contributions made to them are entitled to a charitable donation receipt. Those contributions, usually in the form of investable assets, generate investment income which is used to fund the charitable activities of the private foundation.

How does the donation work?

A private foundation is a separate legal entity. Once it has been created, an application is made to the CRA to obtain registered charitable status. Financial contributions are then usually made by either the individual or the family that created the private foundation, so that it can begin to earn investment income to fund its charitable activities.

The individual or family that sets up the private foundation will receive a charitable donation receipt for the fair market value of their contributions, which they can use to offset their current personal taxes. As a registered charity, the investment income earned by the private foundation will be tax-exempt.

What are the advantages and disadvantages?

Private foundations are ideal for donors who want to play a more active role in their charitable giving. The donor gets to decide which charities will be supported, who sits on the board, and how the donated funds are invested. Private foundations can also be used to educate and mentor younger family members about philanthropic giving.

From a tax perspective, donating through a private foundation lets you make gifts at a time that best serves your tax-planning objectives. This means you can realize the benefits of a tax deduction for contributed assets at any time, even if you don't select which charitable grants to make until a later date. You can also minimize probate fees[1] by donating assets before you pass away, which could increase the amount you can contribute to your favourite charities.

On the downside, there are some restrictions on the activities of private foundations. There are also the costs related to the set-up and annual tax return filings.

Tax-free savings accounts, charitable remainder trusts and private foundations all have varying levels of complexity and different tax considerations. Before you decide which one to use, we recommend you consider your own financial needs and the potential tax savings. Your T.E. Wealth financial planner can assist you with this analysis and determine which giving-while-living option is right for you and your family.

Jason Kinnear
Manager, Family Office Services
T.E. Wealth, Toronto

[1] Probate fees do not apply in the province of Quebec.

Is cash *passé*? Why more people are donating securities or an insurance policy

It's great to give money to charity. And as wonderful as gifts of cash are, more donors are realizing the benefits of donating securities or a life insurance policy instead.

The tax benefits of charitable giving

The tax benefits that go with making a donation to a worthy cause can be a nice incentive to bump up your contribution. When Canadians donate money to a registered charitable organization, they're eligible for a non-refundable tax credit. According to the *Income Tax Act*, they can claim a charitable credit up to 75% of their net income in any given year (the figure rises to 100% in the year a taxpayer dies). For eligible donations over $200, the amount of the credit is equal to between 40-50% of the donation, depending on the province in which the donor resides. (Donations can be pooled between spouses. As a couple, you only need to break through the $200 threshold once.)

The charitable donation should be included on the tax return for the year in which the donation occurred. However, the tax credit does not have to be claimed in the same year, as the Canada Revenue Agency (CRA) and Revenu Québec allow you to claim it until five years after the gift was made.

As great as these tax credits are, donating securities or an insurance policy instead of cash can increase your donation amount and tax-savings potential.

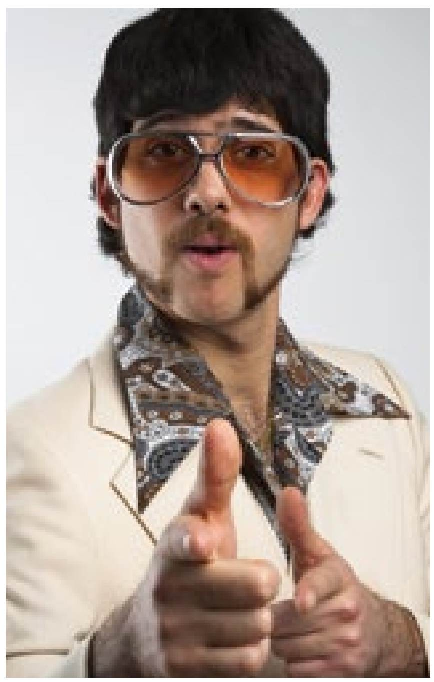
Transferring securities

Many charities will gladly accept the gift of securities, and if the securities you donate have accrued capital gains, then this strategy has a clear advantage for you. Both the CRA and Revenu Québec let you avoid paying any capital gains taxes on gifts of eligible securities. Securities that qualify include stocks listed on public exchanges, mutual fund units, and certain bonds.

You can only avoid the capital gains taxes if you donate the securities to the charity directly. If you sell appreciated securities in order to make a cash donation, the disposition will trigger a capital gain with a corresponding tax liability. For individuals in the highest income brackets, this means roughly one quarter of the gain will be owed as tax. As a result, the amount available to donate to the charity would be reduced by around 25%, as will the tax credit.

Donating a life insurance policy

The process for donating a life insurance policy is a bit more complex than donating securities, and there are actually a few ways to go about it. But as with donating securities, it can be beneficial both for the charity and the donor. Along with tax incentives, donating insurance can be a way to make a large gift without having to make a large cash outlay.



One method is to simply name a charity as the beneficiary of your existing life insurance policy. Upon your death, your estate will receive the tax credit. This can be used to offset any tax that may be payable. Another advantage of going this route is that you'll retain control of the policy. Should you so choose, you can change the beneficiary of the policy at any time. One drawback of retaining ownership of the policy until your death is that you won't receive a tax credit for the premiums you paid.

A second approach is to transfer your life insurance policy to a specified charity while you're still living. This transfer must be 'irrevocable'. In other words, once you give the charity your policy, you won't be able to take it back.

Transferring ownership of your insurance policy means you'll be eligible for a tax receipt immediately. Unlike with securities, where the amount is pretty straightforward, the fair market value (FMV) of the insurance policy can take one of two forms. In the first case, you may claim an amount equal to the cash surrender value of the policy, less any policy loans outstanding.

However, it may be that, for a variety of factors (such as your age or health), the fair market value of your policy is much greater than the cash surrender value. For example, on a term policy, you will have a cash surrender value of zero, and if the premiums are too expensive to continue or you no longer need the insurance for the original purpose, you may deem the policy to be worthless to you. As such, you might consider closing the policy. Before doing so, you would be wise to consider whether the FMV is something higher than zero; if it is, then a donation to charity would be worth exploring.

In this event, you can have an independent valuator determine the value of the policy for the purpose of claiming a tax credit. You also need to find a charity willing to take on the policy, as it involves a bit more paperwork than a cash donation for both the donor and the charity, and the donor may incur some extra expenses.

As with many issues involving personal finance, your strategy for donating to charity should take into account your personal circumstances. Before donating cash, it's worth thinking about whether an in-kind gift of securities or insurance makes more sense.

Andrew Hepburn is a freelance financial writer and journalist based in Toronto. He has written for the Globe and Mail, Maclean's, and Morningstar.

Ready to donate? Here are 5 things to consider

You've made your donation to the charity you care about – the one that raises awareness amongst youth about the effects of cyberbullying. Or maybe you've updated your will to include a major bequest to the hospital where your favourite aunt spent her final days being cared for by an exceptional team of doctors and nurses. Whatever the scenario, how and why you choose to donate is a reflection of the ways you've been touched by those in need. But with so many causes to choose from, how do you decide?

We wanted to find out how donors can create a closer connection with the causes they care about, select a charity to support, and learn how technology is changing the way we give. So, we spoke with Mary Cranston, Director, Individual Donor Relations, and Alpa Patel, Manager, Corporate Donor Relations at United Way Greater Toronto, about some of the questions that are top of mind for many donors.

T.E. What are the different ways of giving for someone who wants to make a gift or bequest? How can donors maximize the impact of their gifts?

U.W. Successful charities manage to engage their donors and their donors' families in many different ways that go beyond mailing a tax receipt. For example, we provide opportunities for our donors to see the impact of their support firsthand by volunteering in the community, either by themselves or with their family. These opportunities abound during the holiday giving season, but are available year-round.

To have a better understanding of the impact of your donation, why not take a tour of neighbourhoods across your region to learn about the communities served by the charity you support? This can also be done online. For instance, our online Make the Month poverty simulator shows what it's like to live paycheque-to-paycheque, and the impact that has on a person's overall well-being. It's not quite virtual reality, but it will give you a pretty good idea of the difficult decisions faced every day by the one in ten Canadians who live in poverty.

Major donors to United Way can engage even further by joining leading community experts and fellow philanthropists to discuss the issues at special events. United Way also recognizes these donors in our Major Gift Honour Roll. You can also put your strategic skills to work by volunteering at United Way, or for our network of community partners.

T.E. What advice would you give to readers who are planning to considerably increase their level of charitable giving, or who are planning a major gift?

U.W. Always start by considering what's most important to you, as an individual or a family, in the community. Does the work of the organization align with your interests and passions? You'll also want to find out about how your gift is being leveraged and what sort of impact your investment will have both in the long and short term. Asking questions about the management and track record of the operation is also very important.

T.E. How can donations be made more tax-efficient?

U.W. An individual who makes a gift to a registered charity receives a federal and provincial tax credit that can be offset against income taxes. Depending on the province, the combined federal and provincial tax credit can be as high as roughly 53%. There are other gift options to consider which can benefit the donor in terms of reducing taxes and making a positive impact in the community. It is, of course, always best to ask your financial planner about the tax implications of your donation.

To find out if a charity you wish to support is CRA-approved, you can use the dedicated search engine on the CRA website (http://bit.ly/CRA_list).

TEN GIVING FACTS

1. The **average Canadian family** that claimed donations on their tax return gave $1,820.
2. 33% of Canadian families and individuals that filed their taxes claimed charitable donations in 2017; that's **3% fewer than in 2010**.
3. 49% of Canadian donors give to charities in the **social services** category and 36% give to those in the **health** category.
4. 18% of Canadian donors give to **religious charities**.
5. Just 1% of Canadian donors give to charities serving **Indigenous peoples**, 7% to those protecting the **environment**, and 9% to those in the **arts & culture** category.
6. Those with an annual income of $150-$199K earn 7.5 times more in income than those with less than $20K in annual income, but **give just 2.5 times more** in donations.
7. **Manitoba** has the highest percentage of families and individuals that claim donations.
8. **Alberta** has the highest average donation amount.
9. Monthly donations now represent 15% of all donated dollars and 33% of the number of donations processed by CanadaHelps. **Monthly donors are more loyal** and give almost two times more than one-time donors.
10. Each year, 35% of giving happens in December — 10% on the **last three days of December** alone.

Source: CanadaHelps (2018). The Giving Report 2017. [online] Toronto: CanadaHelps. Available at: https://www.canadahelps.org/media/The-Giving-Report-2017_EN.pdf [Accessed 25 May 2018].

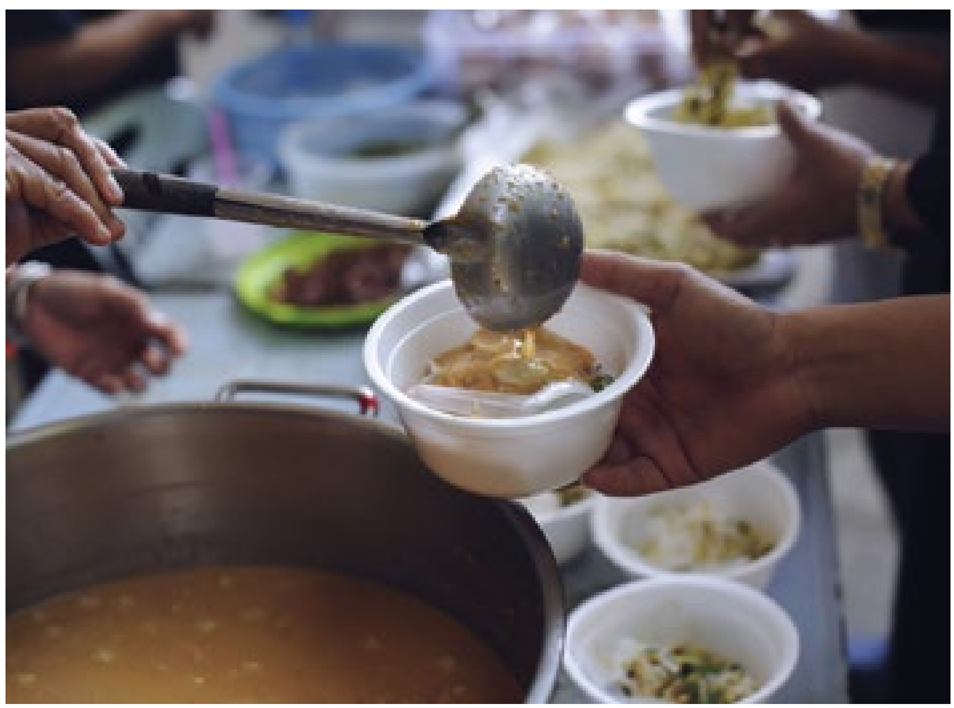
T.E. Sometimes, donors who are gifting large amounts have very specific requests for how they would like their donation to be used. What's the most unusual or memorable request a donor has made with regard to their donation?

U.W. This is a great question! We've been lucky at United Way in that most of the amazing people who are investing in our work understand the broad-based and vital nature of how we support communities. In other words, we haven't had very many, "We'd like you to plant marigolds in perpetuity, to be enjoyed by children ages 10 to 12, in a garden adjacent to the grade school I attended" type requests that we wouldn't be able to follow through on. We have had amazing donors bring up something important in their family life—sports, in one particular case— and work with us on an opportunity to fund a gym space in a community hub in a priority neighbourhood. It was a personal, specific connection that was made with an important community need.

T.E. How is technology changing charitable giving?

U.W. There's a new app called Philanthropy Cloud, built by Salesforce.org (the not-for-profit arm of Salesforce) and made available by United Way. The app connects employees of large companies to their corporate-matched donations, and offers a platform to encourage more giving, more volunteering, and a greater sense of connection to the causes being funded. Each employee's Philanthropy Cloud is personalized in a way that blends some recognizable social media and online shopping tactics.

More broadly, social media are making it easier for individuals to promote the initiatives they take part in to raise funds for their favourite charities, while raising awareness of the causes they are supporting. Donations can now be made in a couple of easy clicks. Most charities encourage donors to sign up online and schedule recurring donations on their credit card, and tax receipts are now mostly sent electronically.



You can check out www.unitedwaygt.org if you're interested in digging deeper into United Way Greater Toronto or call 416-777-1444 ext. 342 to have a staff partner answer any questions you or your family might have.

T.E. consultant Valerie Pippy delves into home construction

Two years ago, Valerie Pippy joined a team of volunteers building houses in the Dominican Republic. After having just completed her second build, she's already planning her third for next year.

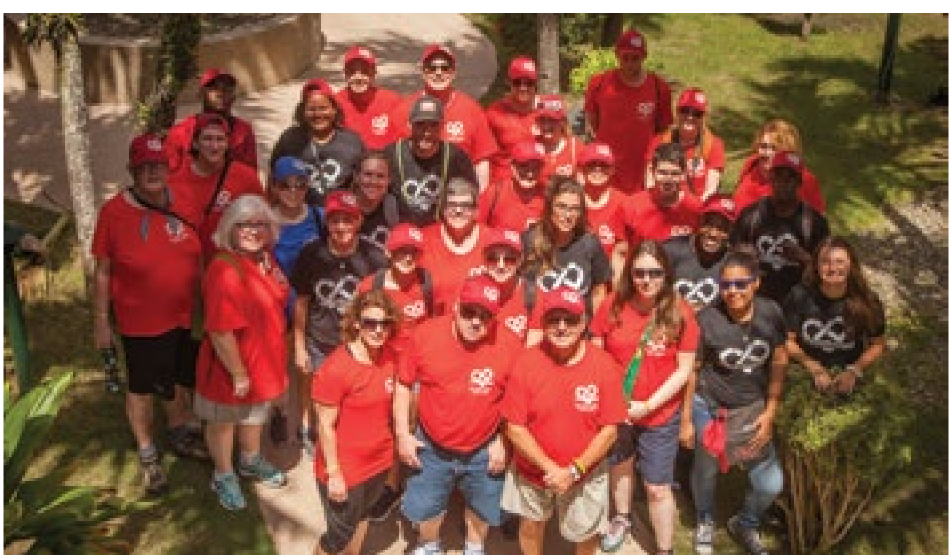
On the outskirts of Puerto Plata is a community called Nuevo Renacer ("New Rebirth"). If you look it up on a map of the Dominican Republic, you won't find it. Its old name was Aguas Negras, or "Black Waters", and the name was not an accident. The riverbanks and beach around the community, which is situated at the mouth of the Rio San Marcos, are strewn with garbage that floats down the murky river from the adjacent resort city.

It was actually worse. Before a recent cleanup, trucks had been using the beach as a dump site.

It was here that Valerie Pippy and nine of her colleagues were thrust into the world of Live Different, a Canadian charity that gives a leg up to Third World communities by building homes.

A financial consultant with T.E. Wealth in Toronto and St. John's, Pippy had already been sponsoring the son of one of her colleagues to go on builds. Two years ago, she took the plunge herself and became a volunteer builder.

"When we finished our build in 2016, I knew that I had to go back and build more houses and make a difference to more lives," she says. "My husband and I have always tried to give back to the community we live in as much as we can, but this experience really did make me realize how lucky we are, and we needed to do more," she adds. "People may say that we should start at home, but our community is a global community and so we should help at home and abroad."



By the end of 2017, Pippy and her clients had raised enough funds to cover three more builds, two this year and one next year. She brought her husband Robert and son David along, as well as her cousin, his wife and a nephew. Other T.E. associates, including some who'd been on the 2016 trip, brought family as well, making it a true family build.

Pippy didn't discover Live Different by accident. She'd already been sponsoring Parker Willis's trips to the Dominican. Parker is the son of T.E.'s Terry Willis. On a bus ride during a family vacation to Panama seven years ago, Parker witnessed two boys fighting over an apple core they had fished out of the garbage.

"That never left my mind," he says. He googled humanitarian organizations and came across Live Different. His parents came on board and his mother, Alison, is now senior director of international programs. "No matter how much my professors teach me, no matter how many documentaries I watch, no matter how many readings I do, I can never get the experience of shovelling water out of my home every morning when it rains… and choosing which child to educate out of the bunch," said Parker, who now studies International Development at York University. "You can't change the world," he muses. "You *can* change the world for somebody."

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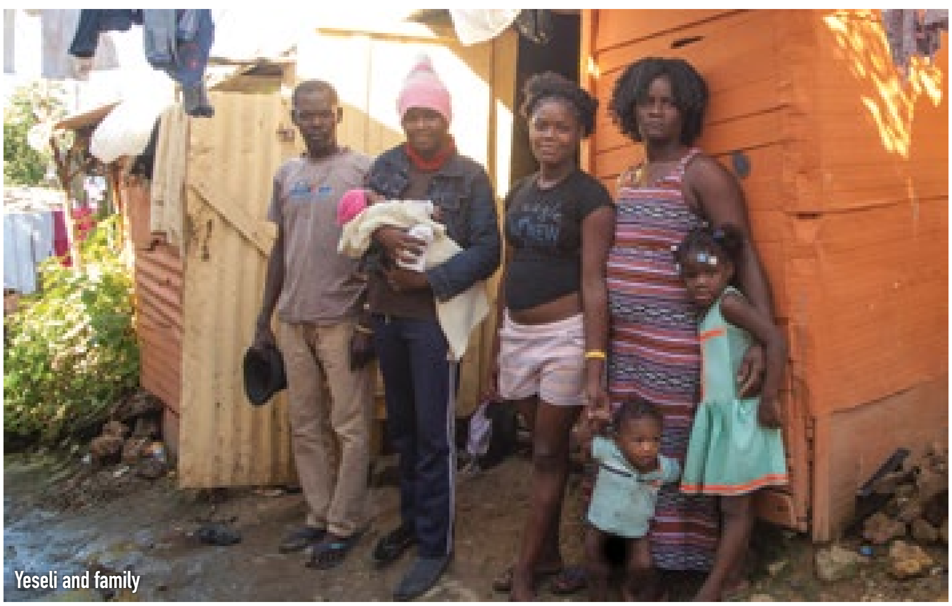
Live Different was founded in 2005. It grew out of an awareness project called Absolute Leadership Development, which consisted of organizing motivational presentations in schools across Canada. Live Different took that theme further, encouraging students and other charity organizations to raise funds to travel south in person and help build houses, schools and community centres in the Dominican Republic. Over time, their reach extended to Haiti, Mexico and even Thailand.

The success of Live Different is perhaps best illustrated by those who keep returning to help. People like Bill Rawlins of Nanaimo. Rawlins has attended more than 50 builds since he first brought a school group to the Dominican Republic in 2005. He now serves on the board of directors.

Rawlins, who retired as a school administrator in 2006, says he could never look back, particularly after one experience in a Haitian village. There was no sanitation. One woman was frying fish heads over a small fire. The stench was unbearable. "I taught this stuff in high school. I never — even in my wildest imagination — thought that conditions could be that bad. I saw it and smelled it and breathed it for the first time."

Valerie and Robert Pippy



Yeseli and family

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For five straight days in March, volunteers with the Pippy Family build got up, grabbed breakfast, lathered themselves up with bug spray and sunscreen and hopped aboard an open-air bus outside a small resort in Sosua. The ride to La Union is about 15 minutes. Along the mostly two-lane road, motorcycles and scooters weave through traffic like daredevils. A few have whole families precariously perched on them. One passed by with a mother on the back nursing her baby.

Each day, the bus turned off the main road at a grove of trees and meandered along a dirt road. There are no roads through this poorer part of the community; just dirt paths winding between tiny houses on a hillside. From the top of the hill, you can see the path to a dump, where some residents work all day collecting recyclables. Their daily wage: one American dollar.

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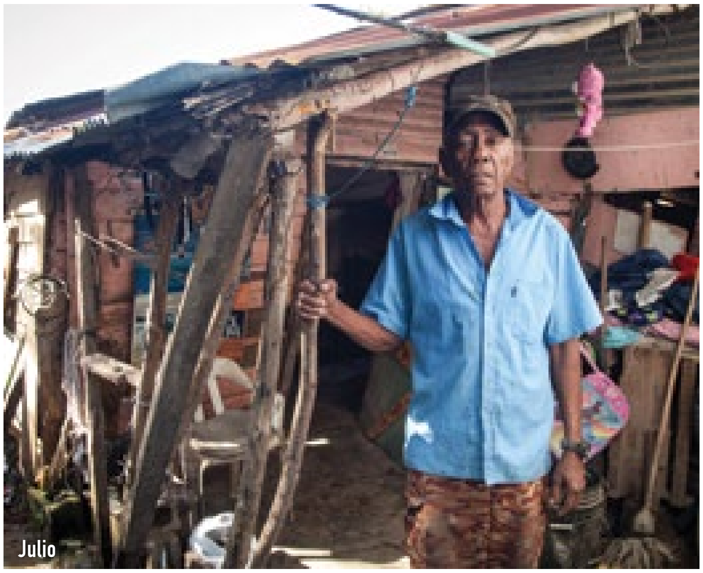
The build generates work for local contractors; they oversee the construction, plumbing and electrical work. Each house has a basic blueprint: kitchen, living room, two bedrooms and a washroom. They're about 700 square feet in size. The first home was built for a family of eight. Yeseli lives with her husband, Willy, and their daughters. One of the daughters, Merica, has two children of her own; a toddler named Javier and a baby, Jasmine.

Merica is 17 and in Grade 8. "I like drawing, and I like to bake," she says through a translator, when asked what she wants to do in life. "I'd like to be a baker." She, her mother Yeseli and younger siblings lived together under one roof, along with her grandfather and uncle. Yeseli's husband Willy had to cross the border to his native Haiti to get a hernia operation. His relatives there helped pay for it. (Haitians are generally treated as second-class citizens in the Dominican Republic.)



The family was living in a run-down house that leaked like a sieve. One of the two bedrooms was completely uninhabitable. Like many families, they'd have to drape mattresses outside to dry after a heavy rainfall. For many in this town, it's a struggle to even get food every day to feed everyone. But people look out for each other. The poor help their poorer neighbours.

Julio, who lives nearby, was an active, productive man in his day. He's the community's jack-of-all-trades as well as a volunteer firefighter and colourful storyteller. At 79, he has also been plagued in recent years with a hernia. A few days before the Live Different volunteers arrived, he finally got surgery and was staying in a temporary shelter. His old shack didn't take long to tear down, he says. "It was a really weak house. It only took four people to destroy it."

During the build, volunteers spend seven hours a day making mezcla (cement mixture) by hand, lugging concrete blocks and twisting rebar together. If someone doesn't have enough sense to take a water break under the searing sun, staff will gently remind them. Children mingle and play, until they get in the way and an authority figure sends them packing. The contractor is in charge; the local workers usually start the houses, and will finish them if time runs out. Others in the community often lend a hand.

After a day off, everyone returns to dedicate the houses and hand over the keys. Speeches are made, tears flow, and another family is given a renewed sense of security and hope. Julio's daughter and her baby can move back in with him now that the build is complete. The old wooden structure wasn't fit for a pregnant woman to live in — anything wooden is eventually decimated by termites. "After God, this is the biggest thing I can have in my life," an emotional Julio said as he sat on the bed in his new abode. "This is the best thing in the world for me."

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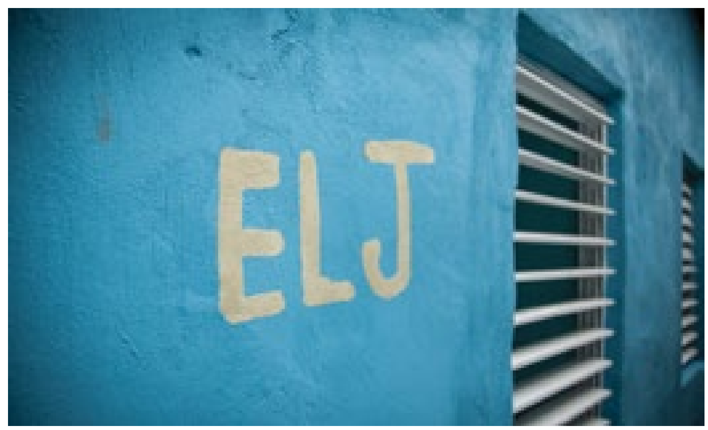
Some of the funds for the build came from an inheritance from Pippy's British mother, Eileen Jackson. Both homes built on this trip in the community of La Union bear the initials ELJ as a tribute to Pippy's mom. "My mother supported me with my first build in 2016," she says. "She paid for new towels and sheets for the family. I shared pictures of our 2016 build with her shortly before her death in June 2016. I told her that I would be going back, and she asked what she could do to support me. All new builds that I am involved with in the future will have towels and sheets for each family."



Peter Jackson is a journalist in St. John's, Newfoundland. He is Val Pippy's cousin.

We will keep you posted on details about the 2019 Val Pippy Family build.

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