Financial Planning Considerations for Charitable Giving

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People who are grateful for what they have received in life often express their gratitude through charitable giving. The most effective way to maximize the benefits for both the donor and the recipient of a charitable donation is to have a "planned giving" strategy.

First, donors should identify the passions, interests and values that they wish to support. Do they wish to benefit organizations that support health, their community, the environment, cultural or other activities?

Next, donors should research charities that focus on their selected area(s) of interest. Sources of information include:

Web Sources

Canada Revenue Agency's online listing of registered charities
http://www.cra-arc.gc.ca/tax/charities/online_listings/charity_listings-e.html

The Canadian Donor's Guide
www.donorsguide.ca

The Canadian Book of Charities
www.canadian-charities.com

Ontario Charities Bulletin #5
http://www.attorneygeneral.jus.gov.on.ca/english/family/pgt/charbullet/bullet5.asp

Finally, donors should decide whether they wish their giving to be short-term or long-term in nature and how much time and/or assets they are willing to commit to charitable giving.

If donors are seeking short-term strategies, they may choose to draw up a yearly list of organizations and allocate an amount to donate to each. These donations would be considered gifts from "income" – contributions designated out of the donor's annual cash flow.

Financial constraints may not allow donors to give cash; they could allocate time on an annual basis instead. Perhaps they could assist with special projects that are finite in length.

If donors prefer a long-term giving strategy, they could make a gift from "capital" – a significant one-time gift of assets or a series of gifts that collectively, are significant. These types of contributions are preferred if the donor wishes to make a perpetual or endowment donation.

Possible alternatives include:

- Gifts to a public special interest or a community foundation;
- Gifts to a donor-advised fund; or
- Gifts to a private foundation.

Donations to a public special interest or community foundation are best suited to donors who are focused in the mandates they wish to support.

Donor-advised funds (also a form of public foundation) allow donors to direct income earned on perpetual gifts to a variety of charitable organizations without incurring the cost or administration associated with setting up a private foundation.

Private foundations provide the donor with full control over the funds, but the associated costs and administration may make this a less efficient choice for foundation capital of less than $2 million.

Another advantage of donating to a public foundation rather than a private one is that publicly-traded securities that are donated to a public foundation are are exempt from paying capital gains tax. The elimination of the remaining 25% as announced in the 2006 federal budget makes donating appreciated securities even more attractive from a tax perspective.

Philanthropists who wish to commit their time on a long-term basis may choose volunteer roles with greater degrees of responsibility or roles that require them to provide services to the organization on a regular basis.

Tax implications should also be considered when financial planning for charitable giving. Donations made in the current year or in any of the preceding five years may be claimed for a tax credit in the current year to a maximum of:

- 75% of net income, or
- 100% of net income in the year of death or the preceding year.
- Donations of appreciated capital property may give rise to increased donation limits of up to 100% of net income.

However, effective December 5, 2003, the value of donated

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property for tax credit purposes is limited to the donor's cost if the gift is donated within three years of its acquisition. Beware of tax shelter donation arrangements; many have been challenged by Canada Revenue Agency under this amendment.

Planned testamentary donations (gifts which are made available upon the death of the donor, such as bequests designated in a Will or out of life insurance proceeds) can be an effective strategy for offsetting taxes payable on deemed dispositions upon the death of the taxpayer.

Generally speaking, it is not advisable and in some cases not possible to request donation receipts for donated time. If the registered charitable organization is able to quantify the fair market value of the donated services, it may be able to issue a receipt for that amount, but the donor would be required to report the value of the services as income for tax purposes. Given our progressive tax system and the fact that many government benefits are income-tested, it may not be in the donor's best interests to have the donated services treated as income and claim a corresponding donation credit.

When a financial planning approach is used to allocate limited assets and/or time to charitable giving, the benefits for both donors and recipients are maximized. Donors focus their giving towards their most important charitable objectives and organizations benefit from donors' greater philanthropic commitment.

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