



An Approach To Charitable Giving

Cynthia Kett

Philanthropy is catching on. According to Statistics Canada¹, 5.8 million tax filers or 24.7% donated to registered charities in 2006. Although the number of donors decreased 1.4% from 2005, the total amount donated, \$8.5 billion, increased 8.3%.

Despite the downturn in the markets, we are an affluent society that lives in a stable, secure environment. If you express your gratitude through charitable giving, consider this: The most effective way to maximize the benefits for both the donor and the recipients of charitable donations is to have a “planned giving” strategy.

We plan for our children’s education, vacations and retirement. If philanthropy is an important goal for you, why not give it the attention it deserves? You will gain more satisfaction by giving more to the charities that mean the most to you than you will by donating small amounts to whichever ones come calling.

Planned Giving is a Process

1. Identify the passions, interests and values that you wish to support. For example, do you wish to benefit health, community, environmental, cultural or other types of organizations?
2. Research charities that focus on your selected area(s) of interest. Sources of information include:
 - Canada Revenue Agency’s online listing of registered charities at <http://www.cra-arc.gc.ca/tx/chrts/dnrs/lstngs/menu-eng.html>,
 - The Canadian Donor’s Guide at www.donorguide.ca,
 - The Canadian Book of Charities at www.canadian-charities.com,
 - Ontario Charities Bulletin #5 at <http://www.attorneygeneral.jus.gov.on.ca/english/family/pgt/charbullet/bullet5.asp>.
3. Decide whether you wish to make a short-term or long-term commitment to the charity. How much time and/or assets are you willing to commit?

- If you are seeking a short-term strategy, you might choose to draw up an annual list of organizations and allocate an amount to donate to each. These donations would be considered gifts from “income” – contributions designated out of your annual cash flow.
- Financial constraints may not allow you to give cash. Allocate time on an annual basis instead. For instance, perhaps you could assist with special projects that are finite in length.
- If you are prepared to make a commitment to a long-term giving strategy, you could make a gift from “capital” – a significant one-time gift of assets or a series of gifts – that collectively are significant. Perpetual or endowment donations are examples of these types of gifts.

4. Incorporate your charitable giving objectives into your annual and/or long-term financial plans. Rank your donations relative to your other life priorities.

- Consider cash flow, time and asset constraints; family needs; lifestyle objectives and income tax implications.
- Implement your charitable giving plan. (More on this topic in upcoming issues.)
- Periodically review your progress; modify your giving plan when your priorities or circumstances change.

I’ll be addressing a number of planned giving topics in future *MoneySaver* articles. However, an overview of the following donation issues may be helpful to you.

Significant Monetary Gifts to Charities

Some of the choices available to donors who wish to donate sizable amounts include:

- Gifts to a public special interest or 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.

Gifts of Time

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. Volunteer board members or “hot line” volunteers will often donate their time for indefinite periods of time.

Generally speaking, it is not possible to request donation receipts for donated time. According to the Canada Revenue Agency’s glossary for Charities and Giving (<http://www.cra-arc.gc.ca/tx/chrts/glossry-eng.html>), “Gifts-in-kind, also known as non-cash gifts, are gifts of property. They cover items such as artwork, equipment, securities, and cultural and ecological property.

A contribution of service, that is, of time, skills or efforts, is not property and, therefore, does not qualify as a gift or gift-in-kind for purposes of issuing official donation receipts.”

However, if an individual or corporation enters into a business relationship with a charity, is paid for the work performed and then makes a subsequent donation to the charity, the donation would be eligible for a receipt. You cannot donate your time, not report the income, and claim a donation receipt for the value of your time.

Given our progressive tax system and the fact that many government benefits are income tested, it would not be in the donor’s best interests to have what are effectively donated services treated as income offset by a donation credit.

Other Tax Considerations

Tax planning should be incorporated into charitable giving strategies.

If appreciated publicly-traded securities are donated to a registered Canadian charity, they are eligible for a capital gains inclusion rate of 0% rather than 50%.

Donations made in the current year or in any of the preceding 5 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 property for tax credit purposes is limited to the donor’s cost if the gift is donated within 3 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.

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.

Footnote: ¹Statistics Canada, CANSIM, table 111-0001 (summary found on <http://www40.statcan.ca/l01/cst01/famil90.htm>)

Cynthia Kett, CA, CGA, CFP, Principal, Stewart & Kett Financial Advisors Inc., Toronto, ON, (416) 362-6323, www.stewartkett.com