Canadians want to give, but what's holding them back?

Insights into philanthropy

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They say it's better to give than to receive. Judging by their actions, Canadians are big believers in that concept, with an overwhelming majority making financial donations to worthy causes. Not only does it make them feel good, it may also yield favourable tax incentives. Nevertheless, charitable giving in Canada is waning.

Canadians have long been known as friendly, welcoming and exceptionally polite. In fact, that's partly why we consistently have the best reputation in the world.[1] But our generosity is also gaining attention. A recent global survey of charitable giving in terms of time, money and acts of kindness ranked Canada fourth out of 135 countries,[2] confirming that we truly are charitable people.

Most folks will admit that they give to charity because it makes them feel good. Research from Statistics Canada[3] shows that between 2010 and 2013, the total amount donated by Canadians to charitable or non-profit organizations increased by 14% to $12.8 billion. In 2013 alone, the majority of Canadians (82%) made financial donations to a charitable or non-profit organization, with $5.2 billion (41% of the total given in that year) earmarked for religious organizations, $1.7 billion going to the health sector and $1.6 billion to social services organizations. The average donor is getting older, with 35% of all donors being over the age of 55 in 2013 compared to 29% in 2004.[4]

While the numbers are impressive, it's not all rosy. The Canada Revenue Agency reports that the incidence of charitable giving is declining, with the proportion of taxpayers claiming donation tax credits down from almost 30% in the early 1990s to less than 22% in 2013.[3] Top donors (the 25% of donors who donate the most money) contribute about four-fifths of the total annual amount of donations in any given year.[3]

BMO Wealth Management commissioned a survey of high-net-worth individuals in Canada to learn more about their propensity to give charitably.[5] The survey found that even though Canadians want to give, many have doubts that prevent them from giving confidently; most notably, almost half (43%) are concerned that their donations or gifts won't be used wisely. This report examines the philanthropic landscape in Canada and delves into some important aspects Canadians need to know to help them make the most of their charitable donations.

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Philanthropy vs. charitable giving – why people give?

Most people can and do engage in charitable giving, but not in philanthropy. What is the difference? Marvi Ricker, vice president for philanthropic services at BMO Wealth Management, explains that she regards charitable giving as an impulse to support a cause that is important to the donor or a friend.

> However, it generally involves only writing a cheque and does not imply any ongoing involvement with the organization or cause. On the other hand, philanthropy is a more thoughtful, long-term process of giving to organizations with the expectation of having an impact on an issue that is important to the donor. The donor is expressing his or her values and aspirations, while giving in a measured fashion over a period of time.

Whether it is called charitable giving or philanthropy, it is certainly personal and – much like many of life's decisions – there is emotion involved. Research indicates that wealthy Canadians are more concerned about feeling connected to the organization they're giving to than they are about getting a tax break. They are motivated by a wish to have an impact on their community (55%) and a desire to give back (50%) more than by wanting to reduce taxes (21%).[4]

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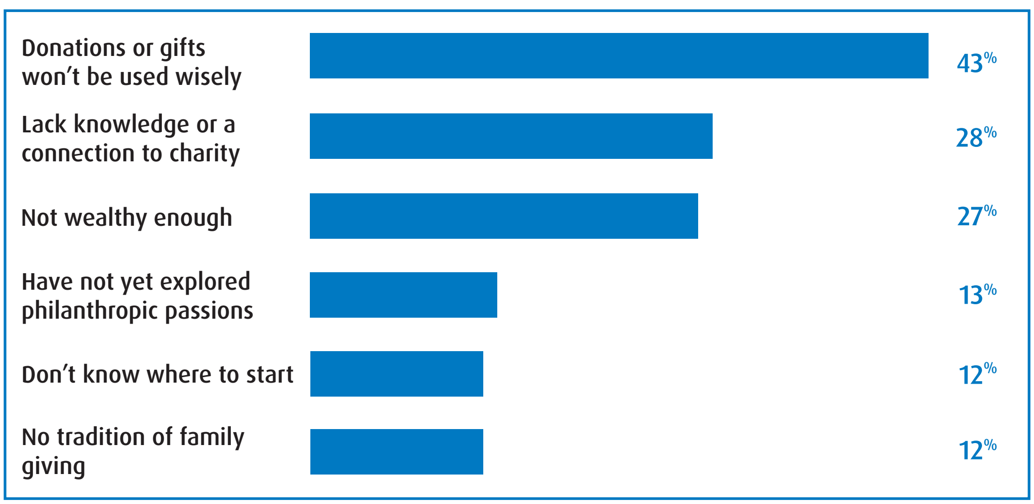
What's holding us back from giving?

With so many exemplary organizations and causes needing assistance, it can be daunting to figure out which ones to support. While the motivation for charitable giving is generally altruistic, the choice of the target for donations is often linked to a donor's personal interests and values and the desire to fuel a passion for a cause.

Yet there are several reasons why Canadians are hesitant to give, as illustrated below.

Hesitations about charitable giving



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., August 2016.

It's the survey respondents who have not yet explored philanthropic passions, don't know where to start, or have no tradition of family giving that are of most interest to financial experts, and these situations may indeed provide clues for the reason for the decline in charitable giving.

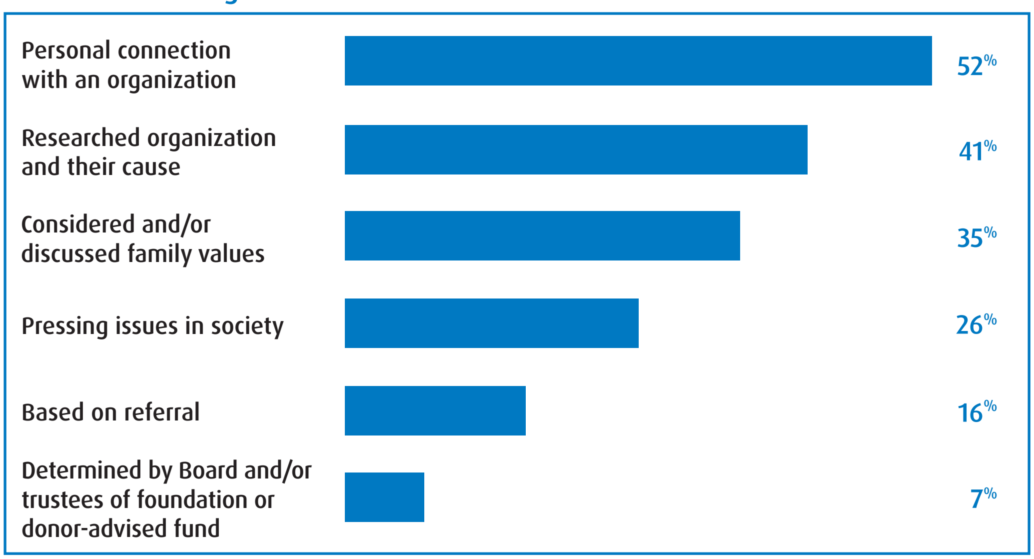
> There are people who give a lot, but it can be all over the place. When there is nothing personal about what they are doing, they get frustrated and less satisfied with their giving. But if there is a pattern, then you know that they are thinking about it and they are giving to issues that they are passionate about.
>
> **Marvi Ricker**

Get educated before giving

Those who express frustration with charitable giving tend to wonder why they donate to certain organizations or question the impact their donation is having. It is likely that these donors do not feel the sense of satisfaction or fulfillment that they should when making generous gifts.

This lack of fulfillment or satisfaction may be influenced by the way donors go about choosing a charitable organization. More than half of those surveyed in the BMO study (52%) give to an organization they have a personal connection with, 41% researched organizations and their causes, and over one third (35%) chose their causes based on considerations of family values.

How charitable organizations are chosen



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., August 2016.

52% **are giving to an organization they have a personal connection with.**

There are many things that potential donors can do to feel more confident about where their money is going and how it will be used:

Do the research Take the time to delve into the organization online and by phone. Imagine Canada, for example, provides information on 86,000 Canadian registered charities and also publishes a Guide to Giving that offers helpful tips and resources for donors looking to be better informed.

Get up close and personal After researching the charity online and talking to others about it, visit the organization in person, volunteer for it and attend events to see it in action. Ask questions about the programs and whether the work is having an impact on those it serves.

Do your due diligence Don't fall for scams! Check to see if the organization is a registered charity and examine its finances to determine the efficiency of the organization or charity.

This latter point is especially important since most donors are interested in seeing their dollars make the most impact. But remember: it's difficult to run a successful organization with no employees or administrative costs.

"Many donors want to put dollars toward program delivery and not into overhead, staff or technology," explains **Marina Glogovac**, president and CEO of CanadaHelps.org. "Charities can't magically deliver programs with 0% overhead. We need them to be well run, which means hiring good people – and you have to pay them."[4]

In other words, real impact requires real investment.

"We encourage Canadians to use a lens that is much broader than simply how much a charity spends on administration, overhead, fundraising," says **Bruce MacDonald**, president and CEO of Imagine Canada. "While questions about financial performance are important, they should be packaged along with questions around what good does the organization do and how effective are the programs that they are offering."[4]

How much is enough, and who should I (we) give to?

Once the research stage is complete, it's time to crunch the numbers and come up with an annual donation amount. Though some religious organizations urge their congregation to give 10% of their income to charity, research shows that those who give typically donate between 2% and 3% of their gross income.[4]

"Everyone's financial situation is different, but for people new to charitable giving, I encourage them to start at 1% of their gross income as a minimum and grow from there," says Glogovac.

The BMO survey[5] found that 83% have donated $10,000 or less to charitable causes. It's interesting to note that giving is a shared decision for nearly half of those surveyed; one-quarter (27%) make the decision with their spouse or partner, and 15% engage in a family meeting or discussion and decide together. Almost half (47%) made the decision randomly, and this perhaps leads to the variety of charities chosen.

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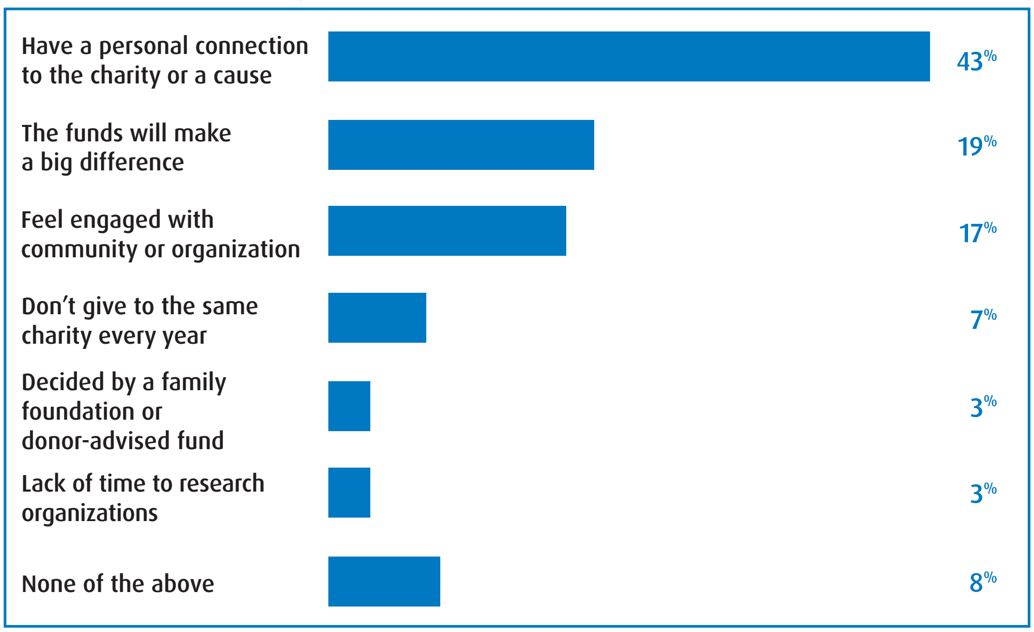
In the survey, 17% of donors just give to the same charity every year, more than half (55%) also donate to other causes, and nearly one quarter (23%) donate to different charities every year. The most common motivation for choosing the same charity (for 43% of respondents) was a personal connection to the charity or cause.

Motivations for choosing to donate to the same charity



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., August 2016.

Giving comes in many forms

There is a wide variety of giving options for donors, from cash to publicly traded appreciated securities and other types of capital items. According to the BMO survey, the most popular way to give is by cash (for 87% of donors), and more than half (54%) volunteer their time. It's worth noting that over one-third (35%) make donations in kind (such as appreciated securities), which may have tax implications for the donor.

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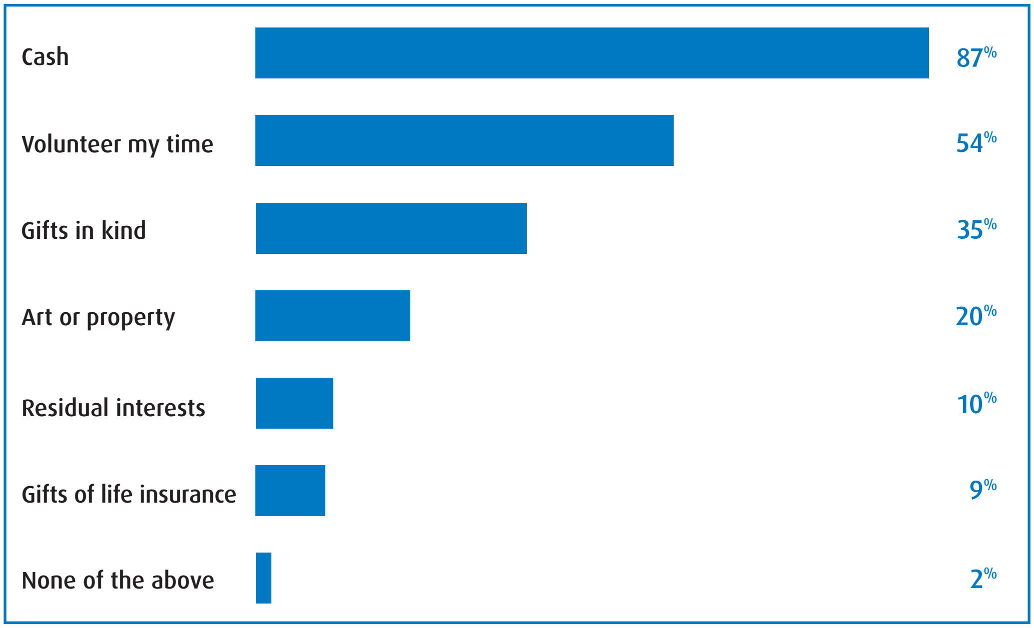
Types of gifts made by donors



Source: BMO Wealth Management survey by ValidateIt Technologies Inc., August 2016.

> While most people are not motivated to give just to save on taxes, tax saving can determine the timing and size of gifts, especially large gift.
>
> Marvi Ricker

Canada has one of the most generous tax systems for charitable giving, and with so many ways to give it is wise to seek professional advice. Research shows that half (50%) of wealthy Canadians admit they would like to talk with their financial advisor about the tax benefit of giving as part of their tax planning discussion, and almost half (49%) would like to use their financial and estate planning conversation to learn more about transferring wealth to people in need and charities.[4]

Understanding the rules for donating assets can make a big difference when it comes to capital gains tax. Moreover, it opens up options for the form that such donations can take.

Oddly enough, not everyone knows to use publicly traded shares instead of cash when donating.

Marvi Ricker

Here are some strategies for charitable giving to consider:

Donating publicly traded securities If you are planning to make a charitable donation this year, consider this tax-saving strategy; especially if you've already determined that you will be selling some of your current investments to provide the cash to fund the donation. By donating securities directly to a charity, you may have an opportunity to reduce the tax you would otherwise have to pay on the sale of your investments. Although a donation of securities is considered a disposition for tax purposes, the taxable capital gain realized on a donated publicly traded security may be eliminated. Whether you donate cash or the securities directly, you will receive a tax receipt for the full value of your donation, regardless of the tax treatment of the capital gain.

The table below illustrates how this special incentive increases the impact of a charitable donation, when the property donated is a qualified security instead of the cash proceeds from the sale of a security.

The benefit of donating appreciated securities

Tax on dispositions	Sell security and donate cash	Donate security
Capital gain on sale of security	$50,000	$50,000
Taxable portion of capital gain	50%	0%
Taxable capital gain	$25,000	$0
Income tax payable (50%)[6]	-$12,500	$0
Donation credit		
Charitable donation amount	$50,000	
Add tax savings from donation (50%)[7]	$25,000	$25,000
Net tax savings	$12,500	$25,000
Net cost to donate $50,000 (Donation amount less net tax savings)	$37,500	$25,000

Source: BMO Wealth Management

This example assumes the donor owns a security with a current value of $50,000 and a nil tax cost base. It further assumes that the capital gain realized on the sale is $50,000, and the entire proceeds are donated to a charity. In the first situation, the security is sold and the cash proceeds are donated. In the second situation, the security is donated directly to a charity. As the table shows, a donation of securities may be preferred over a cash donation of equal value, particularly if you have already decided to dispose of the securities during the tax year.[8]

Real estate or private company shares There is no capital gains exemption for these donations but they are eligible for tax credits. This may be appropriate for business owners with a tax bill for appreciated property or private shares on the horizon. This is a more complex way of giving, and you should seek advice from a tax professional in order to do it effectively.

Private foundations vs. donor-advised funds A private foundation allows a donor to make grants within CRA rules but it also carries the responsibility of administering that foundation. On the other hand, a donor-advised fund, which involves no administration by the donor, has less freedom and flexibility for the amounts the donor can grant because there may be limitations set by the public foundation that is holding the fund.

Charitable bequests Many wealthy individuals want to involve their children in the act of giving and to leave a legacy for the next generation. They do this by supporting their favourite charities through charitable bequests in their will. Be sure to discuss this approach with family members and seek guidance on structuring it properly.

> You need to understand the advantages and disadvantages of each approach and consider the specific circumstances before making a decision. Review your charitable plan with a financial advisor on a regular basis to ensure that your giving goals, target donation amounts and selected gift vehicles continue to align.
>
> **Marvi Ricker**

Give with confidence

Clearly, there are many things to consider when making donations. So when the impulse to give strikes, give confidently by knowing and understating your giving options. Being philanthropic means giving for personal reasons or to match your values – rather than for tax benefits – yet it is still prudent to make these generous donations in a financially sound way.

To learn more about giving with confidence and conviction, consult with a BMO wealth professional. Together, you can develop and action a meaningful charitable giving plan that suits your financial situation and reflects who you are and what's important to you, both today and into the future.

Speak to a BMO financial professional to learn more about the BMO Charitable Giving Program.

Footnotes

[1] Canada's reputation takes top spot in international survey.
Lauren O'Neill, CBC News, July 16, 2015.
cbc.ca

[2] CAF World Giving Index 2015.
Charities Aid Foundation, 2015.
cafonline.org

[3] Volunteering and charitable giving in Canada.
Martin Turcotte, Statistics Canada, January 30, 2015.
statcan.gc.ca

[4] The philanthropic conversation: A guide for professional financial advisors.
Canadian Association of Gift Planners, 2016.
Sponsored in part by BMO.
cagp-acpdp.org

[5] BMO Wealth Management survey conducted by ValidateIt Technologies Inc. between the dates of August 16 and August 23, 2016. The online sample size was 502 Canadians of high net worth with investable assets excluding primary residence of over $1,000,000. The survey has a confidence interval of +-4.32% at the 95% confidence level.

[6] Based on an assumed top marginal tax rate.

[7] Assumes individual is subject to the new top federal tax bracket, has made other donations of at least $200 in the year and has sufficient other income to avoid the limit on donation claim to 75% of net income (100% in the year of death), but does not qualify for the First-time Donor's Super Credit (FTDSC).

[8] Note that changes enacted in tax law originating from the 2011 federal budget have limited the tax benefits associated with a donation involving flow-through securities by restricting the exemption from capital gains tax on the donation of flow-through investments to the excess of the (cumulative) capital gains over the original cost of acquiring the flow-through investments. Please consult with your tax advisor for further details.

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