

Philanthropy and Giving Back

Your Giving Strategy

Your charitable giving may include cash donations made in response to a specific request, a donation of your time or ongoing financial support through a pre-authorized donation plan. However, if you'd like to be more strategic with your gifting, consider incorporating charitable giving into your wealth management plan. A formalized giving strategy can be much more fulfilling, provides an opportunity to leave a legacy and offers some very attractive tax incentives.

While there are rules governing gifts other than cash, you can contribute almost any property of value (i.e., securities, Registered Retirement Savings Plans ("RRSPs"), Registered Retirement Income Funds ("RRIFs"), life insurance and real estate) to a registered charity.

Charitable donation tax credit

Although no one makes a charitable donation solely for the tax benefits, the federal government provides favourable tax incentives that encourage Canadians to be generous with their giving strategies.

The charitable donation tax credit can be claimed for all donations up to 75% of your net income for the year.¹ Donations that cannot be claimed in a given tax year can be carried forward for up to five years. Further, in the year of death and in the year prior to death, the maximum donation increases to 100% of net income. For donations made after 2015 that exceed \$200, the calculation of the federal charitable donation tax credit will allow higher income donors to claim a federal tax credit at a rate of 33% (versus 29%), but only on the portion of donations made from income that is subject to the new 33% top marginal tax rate that came into effect on January 1, 2016. When combined with the provincial donation tax credit, the tax savings are approximately 50% of the value of the donation (depending on your province of residence).

Donating appreciated securities

In addition to the charitable donation tax credit, capital gains can be eliminated when you donate qualifying publicly-traded appreciated securities directly to a charity. By donating the

security directly to the charity, versus selling the security and donating the proceeds, you can avoid paying the tax on any capital gains that would otherwise be incurred on the eventual sale of the security.

Life insurance

Another popular strategy for giving back to the community is to donate a life insurance policy to a registered charity. There are two common ways to do this:

- **Make the charity the beneficiary** – By designating a charity as beneficiary of the life insurance policy, upon death, the charity would receive the death benefit proceeds and the insured's estate would receive a tax receipt for the full amount of insurance proceeds.
- **Make the charity the owner and beneficiary** – Where the insured transfers ownership to, and designates the charity as the beneficiary, a taxable disposition may arise. However, a donation receipt based primarily on the cash surrender value of the policy is issued and all future premiums paid by the insured are considered charitable donations eligible for a charitable tax credit.

A life annuity can also be used as part of a charitable gift plan. The benefactor would use a portion of his/her capital to buy a life annuity to provide a lifetime stream of income. The remaining portion of the benefactor's capital could then be donated to a charity. The result is that the benefactor is able to make a significant gift without impacting his/her income needs.

Donor advised funds

A donor advised fund (“DAF”) is a convenient option for investors wanting to have a lasting impact on the causes that matter to them. Through the BMO Charitable Giving Program, you have access to a flexible and customized philanthropic solution that enables you to set up a DAF in collaboration with the Charitable Gift Funds Canada Foundation. You can choose to make a charitable contribution to your DAF and obtain the tax savings benefits today, while having the flexibility to make disbursements to your designated charitable beneficiaries over time; ensuring a legacy of giving long into the future.

Private foundations

Private foundations have been a popular and effective method for affluent families to create a legacy. Much good has resulted in communities at large by the creation and use of private foundations. In addition to tax advantages, a private foundation is a suitable philanthropic vehicle for those who wish to:

- Retain control over and involvement in grant decision making;
- Pass on values through family giving;
- Involve family members in the decision making process; and
- Focus on issues of personal importance.

Business owners strategies

Canadian business owners should also be aware that similar tax incentives as those for individuals exist for corporate donors, including the elimination of capital gains on a qualifying gift of

publicly traded securities. Notably, however, a corporation will not receive a tax credit for charitable gifts; instead, the corporation will be entitled to a deduction equal to the value of the gifted property. This will result in a reduction of the tax that would otherwise be payable on income earned by the corporation, so it's important to take into account the rate of corporate tax paid. Similar to individuals, corporations are also restricted on the amount of charitable deductions claimed annually. A corporation can deduct charitable donations, up to a maximum of 75% of its current year net income, with the potential to carry forward any excess for up to five years.

Business owners who are disposing of their business may be exposed to significant tax personally or within their corporation, depending on how the sale is structured. As such, they may wish to consider the aforementioned charitable giving strategies as a possible means of reducing this significant tax liability, while addressing their charitable intentions.

The power of giving

Whatever strategy you choose, it can be rewarding to see the positive effects of your gift at work in your lifetime and beyond. Adding a philanthropic component to your estate planning can result in significant tax savings, while addressing your desire to leave a lasting legacy.

For more information, please speak with your BMO financial professional.



¹ However, note that the 2016 Quebec Budget has proposed to remove the 75% limitation for 2016 and subsequent taxation years in calculating the qualifying Quebec provincial donation tax credit.

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