

Exploring Charitable Giving:

Understanding donor advised funds and private foundations

Charitable giving is an important goal for many of us. Some donors seek to improve their community, while others, who are financially secure, simply want to give back.

In many cases, donors believe in and want to support a specific charitable organization's mission. Others use charitable giving as a way to teach the next generation about empathy and generosity. If you are considering charitable giving, there are a variety of ways that you can support the charities you believe in. The following are some of the options available.

Donate directly. Donate cash or other assets (such as publicly-traded securities) to a charity's general fund for unrestricted use, or to a restricted fund for a specific project.

Donate through your Will. Make testamentary gifts in your Will by giving a set dollar amount or a portion of your estate to a charity.

Designate a registered charity as the beneficiary of your Tax-Free Savings Account ("TFSA"), Registered Retirement Income Fund ("RRIF"), Registered Retirement Savings Plan ("RRSP") or life insurance policy. Naming a charity as the beneficiary of your TFSA, RRIF, RRSP, or life insurance policy is beneficial because the proceeds will pass outside of the Will (except in Quebec, where beneficiary designations of registered plans must be made in the Will) and therefore escape the probate fee. In addition, a tax credit is generated that can offset taxes owed by the estate (or deceased in qualifying circumstances).

Establish a Donor Advised Fund ("DAF") or your own Private Foundation ("PF"). Both offer an immediate income tax deduction in the year of the gift and enable the donor to distribute the funds for grant making over an extended period of time.

Choosing between a DAF and a PF

Below are some high-level guidelines to help you compare a DAF and a PF. Your BMO financial professional can help you determine if one of these options is right for you.

A DAF or PF may make sense if you:

- are interested in having a vehicle for long-term, strategic charitable grantmaking rather than making one-time gifts
- are looking to maximize your charitable donation income tax deductions
- have sold a business, received an inheritance, won a lottery, etc., and want to manage your charitable grantmaking over time
- have a large income tax bill for a given year and are looking to offset the taxes through charitable grantmaking but don't have any immediate charitable plans
- want to use this as an opportunity to involve your family and to teach them about community responsibility

Refer to **page 2** for more information comparing DAFs and PFs.

BMO's Philanthropic Advisory Services team can provide helpful insights on how to use your wealth to make a positive impact on organizations you care about. Our advisors work with you to design a long-term strategy that may significantly reduce your estate taxes and further the work of causes you support. We can help structure your giving to enhance its value for the recipients, while also generating tax advantages for you and your family. We can also manage all aspects of major gift administration.

The BMO Charitable Giving Program is a flexible and cost effective DAF program that enables you to create a charitable gifting plan in collaboration with the Charitable Gift Funds Canada Foundation.

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

Comparing donor advised funds and private foundations

	Donor Advised Funds	Private Foundations
Minimum contribution	The BMO Charitable Giving Program DAF has a minimum contribution of \$25,000.	None. Ideal for donors who plan to fund a minimum of \$1 million. Contributions to the fund can be made over time (\$1 million gift not required at start-up).
Start-up costs	Typically none (covered by sponsoring charity). Can usually be established immediately by filling out an application.	A foundation can be created as a federal or provincial corporation or as a trust, and once established must apply to CRA for charitable status. The process can cost as little as \$7,500 to \$15,000 depending on the complexities of desired charitable purposes. Establishing a foundation and being granted charitable status from CRA can take six months or more.
Ongoing administrative and management fees	Varies with the sponsoring charity and level of services. The administration fee is typically around 1% for accounts under \$500,000 and decreases for higher account balances. Cost of money management depends on the amount invested.	Varies with level of services required. Must file annual tax returns, conduct independent audit (if required), manage and administer all functions. Cost is usually about 1% of assets.
Valuation of gifts and tax deductions	Gifts of cash or publicly traded securities generate a tax receipt at fair market value, which can be applied against 75% ¹ of an individual's or a corporation's net income for a tax credit or tax deduction, respectively. Any excess or unused credit/deduction can be carried forward for five years. For gifts of appreciated public securities, the taxable portion of the capital gains is eliminated when shares are given directly.	Gifts of cash or publicly traded securities generate a tax receipt at fair market value, which can be applied against 75% ¹ of an individual's or a corporation's net income for a tax credit or tax deduction, respectively. Any excess or unused credit/deduction can be carried forward for five years. For gifts of appreciated public securities, the taxable portion of the capital gains is eliminated when shares are given directly.
Control grants and assets	Donor has less control. Sponsoring charity of a DAF typically offers limited investment options and has the right to approve or deny a grant. However, it is important to note that donors can make recommendations, and the sponsoring charity generally approves the recommendations.	Donor family has complete control of all grant making and investment decisions, subject to any restrictions imposed under the relevant regulatory and tax legislation, such as self-dealing rules.
Required payout	Can vary each year, depending on the policies of the sponsoring charity.	Federal law determines the annual disbursement quota ("DQ") required for charitable purposes. Currently the DQ is 3.5% on the portion of property not used in charitable activities and administration up to \$1 million and increases to 5% on property exceeding \$1 million. The new DQ applies to charities' financial periods starting on or after January 1, 2023.

	Donor Advised Funds	Private Foundations
Privacy	Names of individual donors can generally be kept confidential if desired. The donor does not file tax returns for the DAF; the sponsoring charity files a tax return.	Must file detailed and public tax returns on grants, donations to the foundation and expenses.
Governance and succession	Donor(s) may name advisors to recommend grants. Donors may also name successors to the account (sometimes limited to two advisors or two generations). If they do not, the balance of the DAF goes to the sponsoring charity's general fund.	Have the ability to appoint its board members, including family members, which provides the opportunity for a family's future generations to participate in its legacy.
Perpetuity	Usually lasts one or two generations, and then funds revert to the sponsoring charity. In some cases, the family can control the DAF in successive generations.	Can exist in perpetuity.



¹ The 75% limitation for individuals is increased to 100% in the year of death. Also, the 2016 Quebec Budget has proposed to remove this 75% limitation for 2016 and subsequent taxation years in calculating the qualifying Quebec provincial donation tax credit for individuals.

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