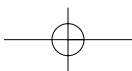
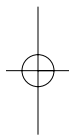
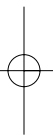


DESIGNS FOR GIVING





Introduction



ONE THING THAT SETS US AS HUMAN BEINGS APART FROM OUR FELLOW CREATURES IS THE WAY WE CONSCIOUSLY CONTROL AND SHAPE THE WORLD AROUND US. WE DON'T WAIT FOR FRUIT TO

FALL FROM TREES BEFORE WE EAT IT: WE PLANT THE TREES, HARVEST THE FRUIT, IMPROVE THE STOCK TO DEVELOP BETTER FRUIT, AND DEVELOP MORE PRODUCTIVE ORCHARDS.

COMMUNITIES, LIKE ORCHARDS, must be nurtured. We have to plant seeds and wait for results. We have to prune and shape. And we naturally want to share with others the fruits of our labours. We want to help family and friends, but often we also want to give part of what we have for the benefit of people we have never met, and those less fortunate than ourselves.

Charity is as old as recorded history, reflecting the human impulse to give to others. This booklet explores the many ways you can make a charitable gift that reflects your interests, your desire to help others, and your commitment to the work of an organization you admire.

The government of Canada encourages charitable giving with numerous tax incentives, and some of these are outlined in this booklet. For more information, we invite you to contact our office. We also encourage you to consult your own financial and legal advisor for a full discussion of the tax implications of charitable gifts as they apply to your situation.

OUTRIGHT GIFTS

A person who makes outright gifts annually can be compared to a farmer who gives apples each year from the bounty his trees produce. This is the most common type of charitable giving, annual gifts that support current programs.

A farmer who has been making small gifts of apples for a number of years may find that as his trees have grown, the fruit far exceeds his needs. He can decide to make a larger contribution by giving one or more trees—dedicating the fruit permanently to the charity of his choice. This outright gift of appreciated property has many advantages for the farmer and the charity, as explained below.

Outright gifts—either of cash or other property—provide support for a charity's day-to-day activities, or for special projects and needs. These gifts buy food for the hungry, furnish scholarships for young people to go to university, provide religious services, secure specialized equipment for hospitals, keep the arts lively, support medical research, and protect the environment. There are many ways of making outright gifts, but they share a common characteristic: as soon as the gift is made, it can be put to use.

Giving Cash

Gifts of cash—whether by cheque, money order, credit card, or currency—are the most familiar way to contribute to charity. A cheque is considered to have been given on the day it was mailed. (For example, a gift sent by mail, if postmarked in December, qualifies as a charitable donation in that tax year, even if it is not received until January.) A gift by credit card is considered to have been made on the date the obligation was incurred.

A tax credit is allowed for charitable gifts, which means that the net cost of the gift to the donor will be less than the amount given to the charity. If you make outright gifts, you can deduct a percentage of the value of your accumulated receipts—16 percent for the first \$200 donated and 29 percent for any additional gifts—from the federal income tax you owe. Because provincial income tax is a percentage of federal tax (in all provinces except Quebec), this also reduces your provincial tax. Married couples may pool charitable donation receipts to take advantage of the higher credit on donations exceeding \$200.

(Note: Although residents of Quebec file a separate tax return, they do receive a tax credit for charitable gifts on that return. Thus, total tax savings for charitable gifts in Quebec approximate that of other provinces.)

¹ As proposed for January, 2001 in the October 2000 Federal 'Mini Budget'

TO ILLUSTRATE: A donor whose combined federal and provincial tax credit equals 48 percent, and who makes a \$5,000 charitable gift, would realize a tax savings of \$2,400, so the actual cost of the gift to the donor would be only \$2,600.

The amount an individual may claim in charitable donations for any one year is limited to 75 percent of his or her net income for that year, but the excess may be carried forward for up to five years. The 75 percent limit now applies to all gifts, whether to registered charities or to the Crown.

Giving Appreciated Property

When you sell or donate property, 50 percent² of the gain is now taxable with one important exception. In the case of a gift of qualifying securities to a charity other than a private foundation, only 25 percent of the gain is taxable. For gifts of other types of property, you are taxed on 50 percent of the gain.

Suppose, for example, that you donate to a public charity listed stock valued at \$10,000, which you purchased for \$2,000. Your capital gain is \$8,000, of which 25 percent, or \$2,000, is taxable. If your combined federal and provincial tax rate is 50 percent, the tax on your gain would be \$1,000. However, your contribution results in a tax credit of \$5,000, which offsets your tax on the gain and leaves a net savings of \$4,000.

If you had sold the stock, you would have been taxed on 50 percent of the gain, resulting in a tax of \$2,000 and leaving net proceeds of \$8,000. Thus, the cost of giving the stock, compared to selling it, is only \$4,000 (the difference between the net proceeds from a sale and the net savings from a gift).

Another benefit of giving appreciated property of any sort is that 100 percent of the taxable capital gain is creditable. Thus, the tax credit will always

² As introduced in the October 2000 Federal 'Mini Budget'

exceed the taxable gain, no matter how large the gift or how much it has appreciated, and there will always be net tax savings when such property is contributed.

TO ILLUSTRATE: A person whose net income from various sources is \$100,000 contributes real estate with an appraised fair market value of \$200,000 and an adjusted cost base of \$50,000. The amount of taxable gain is 50 percent of \$150,000, or \$75,000, resulting in total net income of \$175,000. The maximum amount of the contribution that can be claimed for credit is \$150,000 (75 percent of income from other sources plus all of the taxable gain). There will be net tax savings because the tax credit from the \$150,000 will exceed the tax on \$75,000 of taxable gain. The unused \$50,000 of the donation can be carried over and claimed for credit the following year.

Tax exemptions on Capital gains. There is a lifetime exemption for sales or gifts of farms or shares in certain privately owned businesses of \$500,000, and the gain in a principal residence continues to be exempt from taxation. If any of these exemptions applies to you, you could use them to reduce tax liabilities when making your gift. **Note:** The federal "mini budget" announced in October, 2000 proposes to increase this exemption to \$2 million for certain small business investors.

Certified Cultural Property

The Canadian government established the Cultural Property Export and Import Act to preserve Canada's cultural treasures—such as paintings by Canadian artists—and to keep them in the country.

Donors of cultural property receive special tax considerations from the Canada Customs and revenue Agency. In addition to a charitable donation receipt for the fair market value of the property given, they may claim 100 percent of the gift in a given year—up to a maximum of the donor's net income—and they

do not have to pay capital gains tax if the property has appreciated in value. Therefore, a donor of cultural property valued at \$100,000 could save \$44,000 to \$51,000 in taxes, depending on the combined federal and provincial tax credit, and would not pay income tax on the gain.

If you have an item you are considering donating, and you think it might qualify as cultural property, you need to do several things. First, confirm that the charity you wish to benefit is designated to hold cultural property. Second, have the item certified as cultural property by the Canadian Cultural Property Export Review Board. You will also need to obtain one or more qualified, independent appraisals. The charity must retain certified cultural property for at least ten years.

FUTURE GIFTS

A farmer who needs all the apples from his orchard during his lifetime may nevertheless promise the trees—and their fruit—to charity after his death. He might make a testamentary gift, naming a charity in his will to receive either all or a portion of his orchard.

Many people who would like to make a substantial gift to charity cannot afford to part with assets during their lifetimes. Drawing up a will and directing a portion of one's estate to charity is the most common type of future gift, but it is not the only way to give. Life insurance or retirement assets also can provide a future gift. A common characteristic of such gifts is that they are revocable: these future gift provisions can be changed at any time, should your circumstances require it.

Giving Through Your Will

It is estimated that only three in ten Canadians have a will, due to oversight, delay—or an extraordinary confidence in the government's ability to deal with

individual property! If you are among the many Canadians who leave no specific testamentary instructions, your lifetime accumulation of wealth will be distributed according to provincial law, which may not be the way you would have apportioned it. And if you have no heirs, the provincial government will receive your property as part of its general revenues.

Making a will need not be complicated, and it should be done with proper legal assistance. Providing for a gift to charity in your will can be easily accomplished. [Here are some examples of various forms of bequests](#), with appropriate wording:

A general bequest designates a certain dollar amount of property, usually cash, to the charity you select: *"I give to (Full Name of Charity) the sum of \$100,000 to be used for the general purposes of (Charity) at the discretion of its directors."*

A specific bequest directs that the charity is to receive a specific piece of property: *"I give to (Full Name of Charity) 500 shares of XYZ stock. . ."*

A residual bequest designates for the charity all or a portion of whatever remains after all debts, taxes, expenses and other bequests have been paid: *"I give to (Full Name of Charity) fifty percent (50 percent) of the rest, residue and remainder of my estate . . ."*

A contingent bequest takes effect only under certain conditions: *"In the event that my wife does not survive me, I give to (Full Name of Charity) the sum of..."*

In addition to choosing the [form](#) of a bequest, you also have choices as to the [purpose](#) for which your gift will be used. Most bequests to charity are unrestricted, supporting the general purpose of the charity, but you may choose to make a restricted bequest directed to

support a particular program or service.

Many charities maintain endowments, and you may be able to specify that the principal of your bequest is for endowment, with only the income expended for the purpose you designate. It also may be possible, subject to the policies of the beneficiary charity, to establish a named fund — in your own name or as a memorial to a family member, friend, or colleague.

If you are planning a bequest, it is important to confer in advance with a representative of any charity included in your will to be sure that your wishes can be met and that your bequest provision is properly worded. Once you have completed your will, you should provide each beneficiary charity with a copy of the clause pertaining to your bequest. Your intention can be kept confidential, if you wish.

Tax Implications of a Charitable Bequest

When you make a bequest to charity, your estate is entitled to a gift receipt for the full value of the bequest. This can reduce significantly the tax payable when your final income tax return is filed. If the total bequest exceeds 100 percent of your income in the year of death, the excess (again, subject to the applicable limits) may be carried back to the preceding year, producing some credit for that year.

TO ILLUSTRATE: *In his will, a widower leaves \$100,000 to a registered charity and the remainder of his estate to his two children. Assuming the net income on his final income tax return is large enough for the entire bequest to be claimed for a charitable tax credit, the bequest may result in combined federal and provincial tax savings of approximately \$50,000. If he had left the \$100,000 to his children, taxes would have consumed that part of it, leaving them with \$50,000.*

You should consider giving your executor the discretion to choose the particular assets that fulfill the charitable bequest. If your executor is able to select listed securities for the charitable bequest and distribute cash or other properties to your heirs, only half as much tax will be payable on the gain in the securities.

Many individuals find peace of mind and satisfaction in knowing that they have provided not only for their immediate families but also for the charitable organizations that enriched their lives and those of others.

Life Insurance

There are several ways to make a future gift to charity through life insurance, and all provide a significant future gift at a modest present cost to you. You can contribute a policy you already own but no longer need, or purchase a new one as your gift.

Transferring Ownership. If you have a life insurance policy that exceeds your current needs—for example, if your children are grown and you no longer need to provide for their financial security—you can make a future gift by naming a charity as the beneficiary of that policy. If you make the charity both beneficiary and owner of the policy, you will be entitled to a charitable donation receipt for its value (normally the cash surrender value). Any premiums you pay after you assign ownership of the policy to the charity are eligible for a charitable donation receipt. The premiums can be paid directly to the insurance company or by gift to the charity, which in turn will pay the premium.

Similar benefits apply to a new insurance policy: if you make the charity the owner, each premium you pay (directly or via gifts to the charity) entitles you to a charitable donation receipt. (If you stop paying premiums, the charity may continue them or elect a paid-up policy for a reduced amount.)

TO ILLUSTRATE: A man, age 45, has some discretionary income but cannot afford to contribute any capital to his favourite charity. He purchases a new life insurance policy with a face value of \$50,000, names the charity as owner, and pays annual premiums of \$1,800 for five years. Each year he receives a donation receipt for the premium paid. His tax credit is \$900 (50 percent), so his out-of-pocket cost to ensure a future gift of \$50,000 is only \$4,500 (\$900 per year for five years)

Naming a Charity as Beneficiary. Another way to make a gift with life insurance is to name a charity as beneficiary of a policy, while you retain ownership. This option is preferable for donors who wish to have access to the cash value of the policy during their lifetimes, or to be able to substitute a different beneficiary if their circumstances change. At death, the estate will be entitled to a donation receipt for the amount of the proceeds, yielding a credit to be applied to the donor's final tax return.

Replacing Donated Assets. Life insurance can be part of your charitable planning even if you do not give a policy or its proceeds to charity. Many people who set aside some of their assets for charity use life insurance to replace the value of those assets for their heirs.

TO ILLUSTRATE: A couple in their 60s contribute \$100,000 cash to a charity for an endowment in their names. During the two years they take to report their contribution (maximum of 75 percent of net income per year), their tax savings total \$50,000. They use \$25,000 of the tax savings to pay up a life insurance policy on the husband's life, naming their children as the beneficiaries. As a result, the charity receives \$100,000 now, their children receive \$100,000 in the future, and they keep \$25,000 that otherwise would have been paid in taxes.

Life insurance can help you make a truly generous gift at an affordable cost. As with all charitable gifts, if you are considering using life insurance in your gift and estate planning you should consult your financial or legal advisor as to which option is appropriate for your situation.

Gifts of Retirement Fund Accumulations

Retirement funds constitute one of the major assets of most people. Billions of dollars currently reside in retirement funds, as workers prepare for the years when they no longer will have a steady paycheck. Individuals enrolled in a registered retirement savings plan (RRSP), or who have already converted their RRSP to a registered retirement income fund (RRIF), can make a charitable gift of all or a portion of any retirement funds remaining at death.

If you are married and your spouse survives you, he or she would ordinarily be the beneficiary of your retirement funds. If you had an RRSP at the time of your death, your spouse could keep them in a tax-deferred plan. If you had already converted to an RRIF, your spouse could continue to receive payments, and those payments would be taxed only when received. If you have under-age children at the time of your death, the retirement funds can be rolled tax-free into an annuity paying them instalments until age 18.

If you are not survived by a spouse, and if you have no children or already have made arrangements for your children, leftover retirement funds can make an excellent charitable gift because the charitable tax credit will offset the tax otherwise payable on the distribution.

TO ILLUSTRATE: A single woman dies at age 75 naming a charity as beneficiary of her remaining RRIF funds. The charity receives the \$30,000 remaining in her RRIF. The tax on her

RRIF funds (50 percent combined rate) is \$15,000 but the tax credit on the \$30,000 contribution is also \$15,000, so the tax credit offsets the tax. Thus, she is able to transfer her remaining retirement funds without ever having them taxed.

GIFTS THAT GIVE BACK

Some gift arrangements can be compared to a farmer who gives his orchard to a charity while keeping the fruit during his lifetime. He may choose to receive a certain number of apples each year (a gift annuity), or to keep as many—or as few—apples as the trees produce (a charitable remainder trust).

Gifts that provide lifetime income to the donor are a type of future gift, but with a very important difference. Unlike bequests—which are revocable gifts that allow the donor to change his or her future provision—annuities, trusts, and other life income gifts require an irrevocable transfer of assets from the donor to the charity. These irrevocable gifts provide immediate tax benefits, although the donation receipt is not as large as for outright gifts.

Gift Annuities

A gift annuity provides both a future gift to charity and guaranteed payments for life to the donor(s). The annuity rates depend on the age of each beneficiary, but they will often be higher than the return the donor(s) received from the donated assets. In addition, a significant portion of the annuity payments—in some cases 100 percent—will be tax-free. Gift annuities can be arranged in a variety of ways, but the most common are as follows:

If the charity you wish to benefit self-insures annuities, it will invest the principal you contribute and pay you and/or another beneficiary a guaranteed fixed amount based on your age(s). After the death of the last beneficiary, the remaining principal will be used by the charity for the purposes set out in the annuity agreement.

If the charity reinsures annuities, it will use part of your gift to purchase from a licensed insurance company an annuity that will pay the guaranteed amount agreed between you and the charity. The balance of your contribution, after purchasing the annuity, will be retained by the charity for current use or to accumulate for an endowment, as you direct.

A gift annuity brings a special bonus at tax time, because a sizeable portion of the payments will be tax-free. Older annuitants receive payments that are totally tax-free and also a donation receipt that will result in a tax credit.

TO ILLUSTRATE: A widow, age 80, contributes \$30,000 for an annuity to a charity for which she volunteered for many years. She receives a tax-free lifetime annuity of \$2,490 (8.3 percent) each year, and a donation receipt for \$3,606.

Charities that offer annuities will provide a personalized illustration showing the amount of payments you would receive from a certain contribution and how those payments would be taxed.

Charitable Remainder Trusts

A charitable remainder trust is a deferred giving arrangement under which a donor transfers property (cash, securities, or real estate) to a trustee. The donor (and/or other beneficiaries) retains the right to the income from the trust either for life or a specified term of years. The charity receives whatever remains in the trust after that specified term, or after the death of the last beneficiary, whichever has been agreed to in the trust document.

Donors who establish a charitable remainder trust receive a charitable donation receipt for the present value of the future gift (the “charitable remainder”), which the charity will receive when the trust terminates. That value is calculated based on actuarial tables, taking into account the value of the property transferred to the trust, interest rates, the age(s) of each beneficiary, or the term of the trust if it is for a specific number of years.

TO ILLUSTRATE: *At age 70, a widower wants to establish an endowed fund for a charity with which he and his wife were involved, but he cannot afford to give up any of his investment income. He transfers property worth \$250,000 to a charitable remainder trust from which his net income will be approximately \$15,000 a year for his lifetime. When he funds the trust, he receives a donation receipt for \$120,675, which, assuming a 50 percent tax credit, will translate into tax savings of \$60,337. After his death, the trust principal will be used to create the endowment.*

Charitable trusts can have many advantages in addition to providing you and/or others with income — including freeing you from the responsibility of managing the asset(s) you contribute, saving probate fees, and protecting privacy.

Gifts of Residual Interest

Suppose the farmer had built his home in the middle of the orchard, and wanted to continue living in it and managing the orchard during his lifetime. He could donate the orchard, and his home, but retain the right to occupy it.

A gift of a residual interest allows the donor to make a gift of real estate, get a donation receipt, and retain the use of that property during his lifetime. That is, you may donate your residence but continue to live

there. You receive a donation receipt for the present value of the “residual interest” you give—irrevocably—to the charity. However, you remain responsible for maintaining the property that ultimately will go to the charity.

There are many benefits to the donor and the charity under this arrangement. The tax benefits include a donation receipt for the present value of the “residual interest” — the value, in today’s dollars, of the property the charity will eventually receive. This is based on the market value of the property, current interest rates, and the life expectancy of those retaining a life interest in the property.

If you decide to contribute your personal residence, you will not be taxed on the gain in its value since you purchased it. If it becomes necessary for you to give up the house during your lifetime, you will have several options: You can rent the house and retain the rental income; give your life interest to the charity and receive an additional donation receipt; or agree with the charity to sell the house and receive a share of the proceeds based on the value of your life interest.

Gifts to the Crown

The Crown refers to the federal or a provincial government, but the Canada Customs and Revenue Agency takes the position that a gift to a corporation that is an agent of the Crown will be treated as a gift to the Crown. Prior to the 1997 Federal Budget, gifts to the Crown or an agent of the Crown were creditable up to 100 percent of net income, while gifts to registered charities were creditable only up to 20% (1995 and prior years) or 50% (1996). Consequently, donors of very large gifts often made them to the Crown or a Crown agency in order to obtain a larger credit.

This led many provinces across Canada to establish Crown Agency Foundations, particularly for universities and hospitals but in some cases for other

types of institutions as well. However, the 1997 Budget levelled the playing field, making the limit 75 percent of net income for both registered charities and the Crown. Thus, a donor no longer derives any benefit from directing a gift to the Crown, and presumably the establishment of additional Crown agencies will be halted.

CONCLUSION

This booklet has tried to suggest the many ways that gifts can be made to benefit Canada's charities, taking into account tax implications and personal considerations that can make different types of gifts suitable for donors with varying needs and interests. For more information about how you can help a particular organization, you should contact the charity to determine how best to match your interests with its needs.

If, like the farmer in the orchard, your labours in life have provided a bountiful harvest, you can experience pride and satisfaction by sharing with others. With careful planning, you have the opportunity to make a generous gift to charity and do yourself a favour at the same time.

*The information in this brochure
does not constitute legal or financial advice
and should not be relied upon as a
substitute for professional advice.
You should always seek professional legal,
estate planning and financial advice before
deciding on a course of action.*

NOTES:

Revised November, 2000
Stock Number CBI