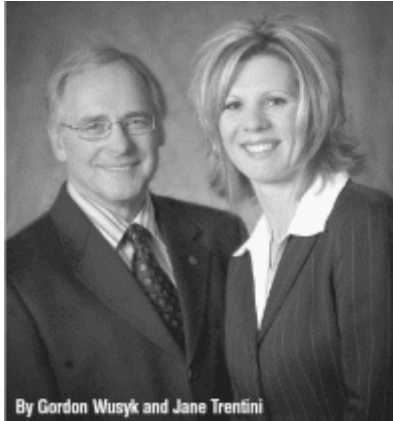


Sharon MacLean's Edmontonians

"The Personality of Business in the Capital Region"

[Home](#)
[Advertising](#)
[Circulation](#)
[Readership](#)
[Subscriptions](#)
[Contact Us](#)


By Gordon Wusyk and Jane Trentini

Gordon Wusyk is the president of Predictable Futures Inc. Jane Trentini is marketing vice-president of Wusyk Financial Group.

Fruits of labour

Choosing values over valuables

By Gordon Wusyk and Jane Trentini

Over the next 20 years, one trillion dollars of wealth will transfer to the next generation, much coming from families in business. For many who are stepping aside, there is a desire to leave a legacy that goes beyond their corporate persona. Success in business is often marked by a strong sense of obligation to give back to the community.

The decisions surrounding how best to share the family fortunes are complex and should not be made in isolation. In addition to involve of other family members, the advice of estate and financial planning experts will maximize the impact of acts of philanthropy.

Tax authorities are close behind when assets and businesses transfer to heirs. Where tax authorities gather so too will a band of professional financial advisors—to protect and advise the accumulators and the recipients regarding these fortunes. Families in business, who make up 85 percent of all privately owned businesses, are increasingly redirecting their taxes back to the community—when shown how. Many are focusing on their significance, not just their success, as noted increases in charitable giving and philanthropy. They currently contribute approximately 50 percent of all charitable gifts in Canada.

Canadians donated approximately \$6.5 billion in 2004 to about 80,000 registered Canadian charities. As entrepreneurs began to focus not only on leading a successful life, but also on leaving a legacy, the Canadian government moved to enhance charitable gifting opportunities in the mid 1990s. The variety of options raises questions for the generous donating public: Who to give it to? How to give? When to give it? Why give it? Where to go for expert advice on gifting strategies?

An Ipsos-Reid poll in 2004 says that 74 percent of respondents agree that there is a vital need for private philanthropy, having concluded that social priorities are under-funded. They specifically refer to education, health care, youth initiatives, and the war on poverty. In spite of this poll, statistics tell us that, while 62 percent of Canadians have made some form of charitable donations, the proportion whose estate planning included a philanthropic bequest is

very small—a mere four percent—according to new Ipsos-Reid research. This identifies a huge untapped potential for social good and a need to educate potential donors about the difference between charitable gifting and philanthropy.

Philanthropy encompasses what is now being referred to as a “planned giving” strategy. Charitable giving—often done spontaneously—involves direct, small and irregular cash contribution, referred to as “unplanned giving”. Alternately, philanthropy is part of an organized, ongoing and long term approach to gifting, designed not only to benefit the charity but also to give the donor benefits—such as current tax deductions and avoiding or eliminating capital gains taxes and other death taxes—while supporting causes that reflect the values and passions of the donor.

The Canadian Centre for Philanthropy shows the stronger motivators to be compassion (94 percent), belief in a cause (91 percent), personal experience with a cause (68 percent), love of their community (59 percent), and religious beliefs (25 percent).

Taking advantage of tax savings options can have far reaching and profound results for the donor and the charity. The following options are applicable to specific charity and not-for-profit organizations, or the Edmonton Community Foundation.

TYPES OF GIFTS

The simplest gift is cash—The charity gets immediate funding and the donor receives immediate tax savings: 26 percent on the first \$200 donation and 41.75 percent on any excess amount.

Donations also may be made as endowments in perpetuity directly to a specific charity or not-for-profit institution, or provided to a community foundation for granting at its discretion or through donor designated or advised instruction. It is worth noting that, in many cases, private endowed donations may qualify for matching grants through government programs. For example, the recently announced Access to the Future Endowment could make up to \$135 million available annually to Alberta’s post-secondary institutions.

A charitable bequest made through a will—This could be a specific amount or a percentage. Charities can be named direct beneficiaries of RRSPs, RRIFs and life insurance policies

Life insurance policies—This is a way for donors to make a large future gift for very little cost. Options include:

- a) Purchase a life insurance policy naming the charity as owner and beneficiary. The life insured receives a tax credit for the premium payments during living years;
- b) Donate an existing policy with the cash surrender value being the donation; or
- c) Retain policy ownership and designate the charity as beneficiary

directly or through the will.

Appreciated public securities—A cost efficient option because donors are taxed on only 25 percent of the capital gain, rather than the usual 50 percent, if they donate the securities directly to the charity—plus they receive a charitable donation receipt for full market value of the gift. Many charities have benefited significantly because of the rules governing the gifts of publicly traded securities such as mutual funds, stocks, bonds, warrants and options.

Charitable remainder trusts—The donor gifts assets to a trust managed by a trustee and income earned is paid to the donor during his/her lifetime or for a period of years. When the trust is established, the donor is entitled to a donation receipt (dependent on age, how long the trust will last, and an applicable discount rate) for the current value of the remainder trust that will pass on to the charity.

Charitable gift annuities—These special annuities are attractive to those who want to make gifts but cannot afford to forego earnings on their investments. A certain sum is transferred to a charity in exchange for fixed, guaranteed payments for life. The charity can self-insure these payments or purchase an annuity. The donor pays very little tax on the income received. The donation receipt is equal to the excess amount over the amount needed for the guaranteed payments to the donor.

Back-to-Back annuity or the insured annuity—Many seniors have accumulated assets and only use the interest income generated, preferring to leave the capital to heirs. It can be advantageous for older donors to purchase an insured annuity to significantly enhance retirement income or create more income for charitable purposes, as well as to preserve their assets intact for their heirs.

A life insurance policy is purchased (joint-last-to-die if a couple), and investment assets are used to purchase a life annuity with no guarantee in order to maximize income. Upon death, the annuity income disappears and is replaced by tax-free life insurance proceeds—thus the name back-to-back. These special arrangements can also be set up corporately to reduce capital gains taxes that would otherwise be payable at death. This strategy allows heirs to withdraw cash from the corporation as tax-free capital dividends, saving 24 percent tax on every dollar. This in turns can lead to the heirs' charitable strategies.

Real estate—Rising real estate values plus the possibility of recaptured depreciation have created a tax trap for many property owners. By gifting property to a charity, the donor can claim tax credits that could wipe out all the tax liabilities. For individuals who want to benefit a charity or who have outstanding pledges, this can effectively soften the tax burden on appreciated property.

Interest free loans—Some individuals want to help their charities but are concerned that misfortune might befall them. Donors can lend their current portfolio to a charity, transferring income, until such time as they may require the funds again.

Private foundations—Private foundations are not necessarily an option only for the super wealthy: Even those with smaller gifts can easily establish their own private charitable foundations. However, costs of managing and administering a foundation must be considered. In many cases, retiring company founders and their spouses—or offspring not involved in the operations of the family firm—will take on the task for particular causes to which the family is committed. Longevity of the foundation will depend on long-term family interests and succession plans.

Clearly, there is a broad range of opportunities to transfer values as well as valuables.

[Top](#)

Copyright © 2005 (Edmontonians) All rights reserved
Revised August 26, 2005
Powered by [Alentus](#)