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The Golden Age of Philanthropy

Investment guru Warren Buffett raised the bar in philanthropy with his multi-billion-dollar gift to the Bill & Melinda Gates Foundation in June.

This unprecedented charitable gift is just one of several large gifts making recent headlines – financier George Soros donated over \$200 million to endow a Budapest university and David Rockefeller Sr. – grandson of famous philanthropist John D. Rockefeller – donated \$100 million to the Museum of Modern Art and another \$100 million to the Rockefeller University.

Here in Canada, businessman Larry Tanenbaum donated \$50 million to a community foundation and another \$25 million to Mt. Sinai Hospital. Peter Munk, founder of Barrick Gold Inc., donated \$37 million to Toronto General Hospital.

While these wealthy philanthropists get the headlines, people of more modest means are also giving an increasing amount to charity. Canadians gave a record \$6.9 billion in 2004, up 6.3% from the previous year. Not only are more Canadians giving, they're also giving more.

Several factors are behind the increase in charitable giving. As a group, Canadians are traditionally very charitable, supporting worthy causes both here at home and around the world. As the Canadian population increases, it's also generally getting older and wealthier. These demographic factors mean that more Canadians have more assets to donate to charity, both during their lifetimes and as bequests.

Furthermore, the government is strongly encouraging charitable giving through tax incentives – most recently, the elimination of capital gains tax on donations of publicly traded securities to charitable organizations and public foundations.

Please read on to learn more about the different ways Canadians are giving to charitable causes – and how you can make the most of your charitable giving.

New trend: charitable gift funds

An increasingly popular alternative to a private foundation is a charitable gift fund. It's designed for people who want to create an enduring charitable legacy, similar to a private foundation, but without the time and

expense. It also appeals to people who want the option to remain anonymous if desired.

With a charitable gift fund, you can donate cash or other assets to a fund administered by a registered public foundation. You receive a tax credit for your donations and, with recent changes to tax rules, donations of appreciated securities are now exempt from capital gains tax. You can recommend how

your contributions are managed and which charities receive grants, subject to the foundation's final approval.

A charitable gift fund may be the right choice if you want to establish an enduring legacy and prefer convenience over control. The minimum initial investment varies depending on the fund, but typically starts around \$25,000.

Creating your legacy

In making his landmark US \$31 billion gift to the Bill & Melinda Gates Foundation, legendary investor Warren Buffett acknowledged that there's much more to philanthropy than simply writing cheques. The world's greatest investor – someone who knows a thing or two about money – chose someone else to help him distribute his vast wealth to charity.

While you may not have Buffett's mega-wealth, you do face the same basic choice when deciding how to create your own charitable legacy. Do you entrust others with the responsibility for managing your legacy, as Buffett did? Or do you take a more active role by establishing your own private foundation, like the Gates?

In fact, you're faced with a number of different choices when deciding how to give to charity. There are nearly 80,000 registered charities in Canada alone. There are also many different ways to give – everything from the relatively simple (donating cash or other assets) to the more complex (creating a trust or foundation) – each offering their own pros and cons.

Simple donations

The most common way people give to charity, of course, is by simply donating cash or other assets. When you make an eligible gift to a qualified charitable

organization, you receive a donation receipt you can claim on your income tax return. A simple donation usually makes most sense when you're making a one-time gift and want to provide an immediate benefit to the charity, while receiving some tax relief.

Bequests

Many people also designate charities as beneficiaries of their estate in their Will. You can choose to leave an absolute dollar amount, a certain percentage of your estate or a residual amount that goes to a specific charity after your other beneficiaries have received their bequests. A bequest makes sense when you want to make a one-time gift to your chosen charity at a future date, while providing a tax credit for your estate.

Charitable remainder trusts

A charitable remainder trust may be suitable if you are considering a significant charitable gift – at least \$200,000 to justify the trust's various



Donating securities: a more attractive option

Normally, you have to pay tax on 50% of any capital gain when selling securities such as publicly listed shares. But when you donate securities to a qualified charitable organization or through a public foundation, you are now exempt from this tax.

Ask your Investment Advisor for more information about donating appreciated securities.

expenses – and would prefer an immediate tax credit versus one for your estate. With this alternative, you contribute cash or other assets during your lifetime to an irrevocable living trust. You receive income generated by assets within the trust. On your passing, the initial capital passes directly to the charity named as the beneficiary, bypassing probate.

Big idea: donating life insurance

By donating life insurance, you can fund a very large payment to your chosen charity with a relatively small outlay of cash.

You can donate a life insurance policy during your lifetime by naming the charity as both the owner *and* beneficiary of the policy. The

charity can then use the insurance policy as collateral for a loan, so they can benefit immediately. When your estate is settled, proceeds are paid directly to the charity, avoiding probate tax.

With this strategy, you will get a donation tax receipt for the premiums you pay every year. Your estate will not get a donation tax receipt for the insurance proceeds paid to the charity.

Alternatively, you can donate a life insurance policy on your passing by naming the charity as the beneficiary only. This enables you to change the beneficiary any time you wish. Again, the proceeds go directly to the charity, bypassing probate.

With this strategy, you will not get a donation tax receipt for your premium payments, but your estate will get a donation tax receipt for the insurance proceeds paid to the charity.

Charitable gift annuities

A charitable gift annuity enables you to give a lump sum to a charity and receive guaranteed periodic income in return, usually monthly, making it an attractive option for retirees. The older you are when you establish the annuity, the higher your income. The charity generally retains 25-30% of the donation and uses the balance to purchase the annuity from an insurance company. Charitable gift annuities are irrevocable, so you should be willing to give up control of any money you commit to it.

Endowment funds

Many institutions operate endowment funds that provide scholarships, fellowships, bursaries and research grants. In some cases, wealthy individuals or families provide very large donations to fund, for example, a professorship. Endowment

funds invest your gift and use only the income stream to fund ongoing projects.

Private foundations

A private foundation is a non-profit organization usually funded by a single source or a small group. The foundation awards grants to support specific work by others or makes contributions to other registered charities.

Private foundations provide the greatest flexibility in charitable giving. You can donate a wide range of assets to a foundation, including money and other assets, such as stocks and bonds. You can also control how your foundation's assets are managed, and how they are dispersed to charities.

While offering the most control, a private foundation also involves a significant time commitment and ongoing administrative expenses. To justify the time and cost, a

private foundation is best suited to individuals with at least several hundreds of thousands of dollars to commit to philanthropic endeavours.

Public foundations

A public foundation is a non-profit organization funded by public donations. There are several different types of public foundation, including community foundations that support charities in a specific geographic area and special-purpose foundations that support particular causes. You can set up your own charitable gift fund with a public foundation, and decide which charities benefit from your fund. Alternatively, you can donate to the foundation's general fund, and allow the foundation to decide which charities receive support.

For more information about choosing the right charitable-giving option for you, please contact your Investment Advisor.



Charitable Gift Program

If you're looking for a convenient way to create your charitable legacy, while enjoying significant tax advantages, ask your Investment Advisor about the new RBC Dominion Securities Charitable Gift Program.

- › Receive a tax receipt for your donations
- › Donate appreciated securities without paying capital gains tax

- › Create an enduring legacy without the time and cost associated with private foundations
- › Establish your legacy with a lower initial contribution starting at \$25,000
- › Choose from professionally managed investment options
- › Recommend qualified charitable organizations to receive annual grants

Charity fraud: what you can do to protect yourself

It's a great feeling to provide much-needed support to charitable causes you care about. But it's not so great to discover that the gift you thought you were making to a legitimate charity was actually a scam. Following are eight steps you can take to avoid falling victim to charity fraud.

- 1) Watch out for copycat names.** Fraud artists will often claim to represent a charity with a name that sounds deceptively similar to a legitimate charity. They may also use similar logos and graphics on their solicitations to dupe you into thinking that you're giving to a reputable charity.
- 2) Protect your personal information.** A legitimate charity will never ask for your personal financial information over the phone, at your door or by email. You can always arrange payment later once you have determined the organization is legitimate.
- 3) Watch out for telltale warning signs.** Sometimes fraud artists will thank you for previous pledges you don't remember making in order to create a false sense of familiarity. They often use high-pressure tactics, demanding an immediate response, and give vague answers when pressed for details about their organization.
- 4) Don't make a decision right away.** Most of the charitable appeals you receive are most likely from legitimate organizations. But it's important to take the time to make sure, before making any decisions. Someone from a reputable organization normally won't insist on an immediate decision and will give you time to make an informed choice. They will be able to provide you with specific information about their organization and ways that you can verify this information.
- 5) Contact the charity directly.** Scammers sometimes misrepresent legitimate charities. Contact the charity directly and ask if it has authorized the appeal.



- 6) Do your homework.** Find out as much as you can about the organization you are considering supporting. Check their Web site, read their annual reports, and gather any other background information you can find. Ask people you trust what they know about the organization.
 - 7) Confirm an organization's charitable status.** Only charities registered under the Income Tax Act can issue official receipts. Ask for the organization's charitable tax number. To find out if a charity is registered, you can visit the Canada Revenue Agency (CRA) Web site at www.cra-arc.gc.ca/tax/charities. You can also call the CRA's toll-free number at 1-888-892-5667.
- While not every worthwhile charitable organization is necessarily registered – and you may wish to give to charities regardless of receiving a tax receipt – being registered is a very good indication that an organization is legitimate.
- 8) Take a more proactive approach.** Especially if you're considering more significant gifts, it makes sense to identify the charitable causes most important to you in advance, rather than responding to the first appeal. Research the charitable causes you are thinking about supporting, consider the different ways you can give to those causes, and get advice from trusted sources before making your decision.

This way, you not only become a more informed donor, you can also protect yourself from potential fraud. When a fraud artist contacts you, you can simply say “No thanks” knowing that you've already made plans to give to charity.