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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | June 2023 www.krygierwealthmanagement.ca

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Be charitable and reduce your taxes!

Few things in life are guaranteed outside of death and taxes. Many of us get hyper-sensitive during tax season as we feed our accountants information about our taxable income, and we hope for a good result from CRA or the IRS. Many investors make many of their investment decisions based on minimizing taxes – which sounds good in principle, but in some instances such an approach can really backfire, when sound investing principles are sacrificed in the name of saving taxes. For instance, many investors were reluctant to sell ***Nortel*** when it hit $124 in August of 2000, to avoid paying enormous capital gains tax on the stock, which had risen over 200% in 1999 alone. Not to worry, by 2001 the market took care of their capital gains “problem”, as the stock had fallen to under $1 (i.e. no gain, no tax). It would have been better to sell the stock while it was high, pay the capital gains tax, and still retain some profits. On the other hand, there is every reason to do tax planning, and it is perfectly legal to plan to minimize taxes in one’s personal or corporate affairs. One difficulty with tax planning is that CRA and the IRS are constantly updating their views regarding tax minimization strategies. Even the capital gains tax itself has been the subject of rumours for years, as governments are desperate to raise their tax revenues to help cover their ever-increasing budgets. Currently in Canada, only 50% of the capital gains “realized” (i.e., sold) each year are taxable as income in the year of a sale. That is a policy decision favouring those who can afford to invest in stocks and real estate, and it acts as an incentive to invest for the long-term, as “unrealized” gains (i.e. not yet sold) are not taxable.

One straightforward way to reduce or even eliminate capital gains taxes on stocks (or on real estate) which are sold is to donate to a registered charity. One can donate cash or something of value “in-kind”. To get even more “bang for your buck” when making a charitable donation, instead of selling some investments, and crystallizing or “realizing” the gains for tax purposes, to have the cash available to donate one can donate some or all of the shares directly, or “in-kind”, to a charity. The benefit of doing so is that the embedded or “unrealized” taxable capital gains in the stocks donated are eliminated for the stocks donated. For the investor this is a “win-win.” The only one who loses in this scenario is CRA/IRS. The investor gets the charitable donation receipt for the full amount of the value contributed, and they do not pay capital gains tax on the gains. The other implication of using this approach to donating is that it costs the taxpayer less, on an after-tax basis, to be able to give more to charity, so in the end the charitable organization also benefits more.

Most charitable organizations have set-up a brokerage account in order to be able to receive such “in-kind” donations of shares. Over the years we have opened several such accounts to flow through the proceeds back to the charity after the shares are donated and are subsequently sold. Another long-term strategy is to create an “endowment” fund wherein one sets-up their own “Charitable Foundation” – donates cash or shares to get the charitable receipt – and then gives money to selected charities over a period of time, rather than a “one-off” donation. This is what I refer to as the gift that keeps on giving!

Creating an endowment fund is not only available for the rich and famous. Many lawyers and accountants are familiar with the idea of registering a new Charitable Organization, although as we have discovered with experience, there are different paths to doing so, and not all paths are as efficient or cost-effective as others. An alternative to the time, complexity and costs involved in creating one's own Charitable Foundation is to instead piggy-back off the *RBC Charitable Gift Program*. This is an existing registered charitable organization, which allows individuals to open a separate account under its umbrella, over which the individual has control. Cash or stocks can be donated to the separately held charitable gift fund, for which a donation receipt is issued. Once donated, shares can be sold and the proceeds can be managed for the longer-term, to allow more charitable giving over time – effectively allowing one's gifting to go on well beyond the initial deposit. *Krygier Wealth Management* manages several such accounts, both Charitable Foundations opened directly by clients as well as those using the RBC program, and aside from some administrative differences they function mostly the same.

Bottom line

It is a truism that "you can't take it with you." The main legacy which we eventually leave behind is the name that we created for ourselves during our lifetimes. What we do with our money says a lot about who we are as people. Helping others through giving of our own time and money can only contribute to making a more meaningful life and society. If one can combine helping others and at the same time help ourselves – it does not get much better than that! As much as the government desires our tax dollars – charities need it more. Consider the use of a charitable fund to both reduce your own taxes while at the same time increasing your meaningful giving to others! Contact us if you would like some more information.

Global benchmarks

As of May 31, 2023 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	2.3%	-2.5%	12.1%
S&P 500 TR - **US$**	9.6%	2.9%	12.9%
NASDAQ Composite - **US$**	23.6%	7.1%	10.9%
MSCI Europe Index Price Return	6.6%	9.4%	7.2%
MSCI Emerging Markets	0.4%	-4.5%	0.5%
China S.E Shanghai A Price Return	0.9%	1.4%	3.6%
MSCI World Index Price Return	7.8%	7.7%	8.7%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	3.2%	-11.4%	-13.9%
10-year U.S. T-Bond - **US$**	3.4%	-3.5%	-6.8%
Long GOC Bond (2053)	4.3%	-3.7%	-12.3%
10-year GOC Bond	2.3%	0.6%	-5.4%
5-year GOC Bond	1.0%	-0.1%	-2.7%
3-month CDN T-bill	1.8%	3.1%	1.1%
US$/CDN$ (1.3572)	0.2%	7.3%	6.1%

Source: RBC Capital Markets Quantitative Research

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