

# Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



Elinesky Schuett Private Wealth Management of RBC Dominion Securities

42 Wyndham St. N, 3rd Floor Guelph, ON N1H 4E6 Tel: 519-822-2024 | Fax: 519-822-1982 Toll Free: 1 844-369-1269 www.elineskyschuett.com

Jay Elinesky, CIM, FMA Senior Portfolio Manager jay.elinesky@rbc.com

Tom Schuett, MBA, CIM Senior Portfolio Manager tom.schuett@rbc.com

Karie Huisman, PFP Associate Investment Advisor karie.huisman@rbc.com

Jennifer Goody-Brown, B.Comm., PFP Associate Investment Advisor jennifer.goody-brown@rbc.com







## Formalized donation options

Beyond a direct gift to a charity, there are many other ways you can support the causes that are important to you. This article discusses some of the formalized options of charitable giving, including private foundations, donor advised funds and endowment funds.

## **Exploring your options**

Typically, when you make a gift to a charity, you are not involved with how the charity will use the funds. If you're interested in a more active approach with your giving or you'd like some or all of your family to participate in creating a charitable legacy, there are various charitable giving options you can consider, including:

- Setting up a private foundation;
- Contributing to a donor advised fund; or
- Setting up an endowment fund.

### 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 can be established as trusts or corporations and have to act exclusively for charitable purposes. Income and capital cannot be used to benefit

any members, shareholders or governing officials. Often, the money contributed is invested and portions of income and capital may be donated annually.

Private foundations provide significant flexibility in charitable giving. Generally, they are funded with a large initial contribution. The donor will get a donation tax receipt for the fair market value of the amount contributed to the private foundation. Subsequent gifts made by the foundation to other registered charities don't generate donation tax receipts. With the ability to donate a large amount immediately, you can plan your tax credits and potentially minimize tax while creating a lasting legacy. For example, you may want to dispose of property with substantial capital gains; as part of your planning for managing the capital gains tax, you may want to make a large donation to reduce the amount of taxes you will pay on the capital gains.

Unlike other forms of giving, a private foundation may also provide you with

the ability to control the use of the funds in the foundation. The donation is not tied to a specific charity. Instead, the foundation's directors or trustees can award grants case by case, usually within guidelines set by the founders. There are several large family foundations in existence that no longer have ties to the original donor family.

The creation and operation of a private foundation is a highly specialized legal and estate planning area. It should be considered only by individuals who are planning to commit a significant amount to charitable activities. In addition to the annual CRA filing, a private foundation may be subject to CRA audits, need to file annual financial statements and be subject to an annual disbursement quota.

If you're planning for a smaller gift or would not like to directly manage a private foundation, there are also a number of non-political community foundations in Canada you can consider. They use money from many donors to benefit a particular city or region. Depending on the value, the gift may go into a general fund or be administered separately as directed by the donor. There are also special-purpose foundations. They invest money collected from the public and use the income to fund grants.

### Donor advised funds

An alternative to a private foundation is a donor advised fund. A donor advised fund allows you to create an enduring charitable legacy but without the time and expense required for a private foundation. With a donor advised fund, you can donate cash or other assets to a fund administered by a registered public foundation. The gift is irrevocable. You receive a donation tax receipt equal to the value of the assets donated.

You can recommend how contributions are managed and which charities receive grants, subject to the public foundation's final approval. A donor advised fund may be the right choice for you if you want to establish an enduring legacy and you prefer convenience over control. The minimum initial investment varies depending on the fund.

### **Endowment funds**

An endowment fund is held by a foundation or charity. They are created by donors when the donors require the charity to maintain the principal amount that was originally donated. The charity will typically invest the donation and only use the income earned to fund ongoing projects.

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. You will need to work with the intended charity to set up an endowment fund.

### Conclusion

Giving is a personal decision, and you and your family may have different objectives with respect to how, the amount and when you wish to give. The alternatives discussed in this article may allow for structured philanthropic giving, which can help you create a charitable family legacy.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.



This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)\*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI) \*, RBC Wealth Management Financial Services Inc. (RBC WMFS) and Royal Mutual Funds Inc. (RMFI). \*Member-Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated, "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. ®/TM Registered trademarks of Royal Bank of Canada. Used under licence. © 2021 Royal Bank of Canada. All rights reserved. NAV0281