



Charitable Gift Program

Exploring and quantifying the concept of “wealth management alpha” — the incremental benefit that’s added to your financial situation when recommended strategies are implemented.

The Smiths

The Smiths have a \$3 million investment portfolio and currently give \$35,000 to a charity annually and plan to do so for the foreseeable future. They each feel strongly about leaving something to their kids, and potentially future generations in the family, once they pass.

They’re used to getting a 5.47% rate of return (ROR). The Smiths are healthy and expect to live for another 40 years. (Tax rates may vary by province or territory of residence and based on an individual’s tax situation.)



Option A — Status Quo

With their annual donations, over the next 40 years, the Smiths will ultimately give \$1.4 million to a charity of their choice. Each year, they get a donation tax credit and can re-invest that refund back into their portfolio.

Here’s an overview of Option A over the 40 years:

| Year | Opening Portfolio | Income | Donation | Tax | Closing Portfolio |
|-------|-------------------|-----------|----------|----------|---------------------|
| 1 | \$3,000,000 | \$164,040 | \$35,000 | \$10,617 | \$3,088,423 |
| 2 | \$3,088,423 | \$168,875 | \$35,000 | \$11,450 | \$3,179,963 |
| 3 | \$3,179,963 | \$173,880 | \$35,000 | \$12,313 | \$3,274,731 |
| | | | | | |
| 38 | \$9,531,029 | \$521,157 | \$35,000 | \$72,141 | \$9,849,734 |
| 39 | \$9,849,734 | \$538,583 | \$35,000 | \$75,143 | \$10,179,677 |
| 40 | \$10,179,677 | \$556,625 | \$35,000 | \$78,252 | \$10,521,253 |

Option B – Implement Charitable Gift Program

Here, if the Smiths donate that same planned \$1.4 million as a lump sum now to a Charitable Gift Program (CGP), they'll be able to take advantage of a larger donation tax credit up front and can have the fund grant that money over time. By doing so, they'll have two portfolios: one as a charitable gift fund, within RBC's CGP, and one personally.

| Year | Opening CG Fund | Income | Charitable Grant (annual) | Closing CG Fund | Opening Portfolio | Income | Tax | Closing Portfolio |
|-------|-----------------|----------|---------------------------|--------------------|-------------------|-----------|----------|--------------------|
| 1 | \$1,400,000 | \$66,752 | \$49,000 | \$1,403,752 | \$1,600,000 | \$87,488 | \$15,072 | \$1,656,416 |
| 2 | \$1,403,752 | \$66,931 | \$49,131 | \$1,407,514 | \$2,362,156 | \$129,163 | \$22,252 | \$2,445,445 |
| | | | | | | | | |
| 39 | \$1,554,031 | \$74,096 | \$54,391 | \$1,558,196 | \$8,814,201 | \$481,961 | \$83,032 | \$9,124,988 |
| 40 | \$1,558,196 | \$74,295 | \$54,537 | \$1,562,372 | \$9,124,988 | \$498,954 | \$85,960 | \$9,446,733 |

In donating the \$1.4 million to an RBC Charitable Gift Fund up front, the clients were able to benefit from the foundation's tax-exempt status by having the funds invested in a tax-deferred manner over the 40 years.

With this approach, annual grant disbursements at a minimum 3.5% (the CRA's requested disbursement quota) of the fund balance are made over their lifetime, and there's over \$1.5 million still available for future grant recommendations, even after CGP recovery rates and investment management fees.

Results

Option A donates \$1.4 million in the clients' lifetime and leaves \$10,521,253 to the next generation. With Option B, the Smiths have granted \$2.1 million to their preferred charitable causes over the 40 years, and they still have a charitable gift fund closing balance of \$1.5 million. This option also leaves \$9,446,733 to the next generation.

This is an overall *wealth alpha* of over \$1.1 million and \$2.2 million in additional charitable social capital by donating a lump sum into a charitable gift fund.



To learn more about why RBC Wealth Management is right for you, please visit rbcwealthmanagement.com.



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