

Popular charitable-giving accounts ‘combine the head, the heart and the wallet’

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Staff at the Sorrento & Area Community Health Centre aren't usually surprised by the annual holiday uptick in charitable donations to their B.C. clinic. But in December of 2017, however, one particular gift caused some surprise.

A \$5,300 cheque from an anonymous donor arrived in an envelope sent by BenefAction, one of hundreds of public foundations across Canada that use donor-advised funds, or DAFs, to make charitable donations on behalf of families, individuals and organizations.

DAFs have flourished in Canada since first appearing in 1952 as a less laborious and less costly alternative to private foundations. According to a new report from Strategic Insight, Canadian DAF assets nearly tripled between 2006 and 2016, with their estimated value now approaching \$4-billion.

Sponsored by independent public charities, public foundations and financial institutions, the 10,000-plus Canadian DAFs that exist today “are particularly popular with families who value a planned approach to their philanthropic and financial affairs,” explains BenefAction chief executive officer Nicola Elkins.

By allowing donors to assign grants to specific causes, and managing donations through charitable investment accounts, DAFs can be tailored by donors and financial advisors to reflect philanthropic goals and values while maximizing tax benefits. Sponsoring foundations, in turn, tend to charge low-single-digit annualized fees based on the value of individual funds, which in 2016 averaged a balance of about \$300,000 in about 10,700 DAF accounts in Canada.

With family wealth accumulating more quickly than ever before, a growing number of affluent Canadian families are turning to DAFs to “combine the head, the heart and the wallet,” says Jennifer Button, the head of Philanthropic Advisory Services at RBC Wealth Management, which outsources its DAF business to Gift Funds Canada.

“Charitable transactions are the ones our clients care most about. They really want them to have an impact, and they want to know the best way to structure their charitable giving. It’s so personal and individual, and donor-advised funds allow them to create their own stories.”

What kinds of charitable stories do DAFs tell? Depending on families’ donation goals, the five common donor profiles listed here reveal some of the most popular narratives.

The Easy Riders

The surprise donation to the Sorrento health centre was likely triggered when a client simply added the gift to their BenefAction donor agreement. The Toronto-based foundation, in turn, handles all administrative responsibilities, including the issuing of tax receipts, legal and audit duties, accounting, investment management, and governance.

Taking as little as one business day to set up and with initial contributions as low as \$0 – BenefAction’s start at \$25,000 – DAFs are ideal for families who feel the burden of establishing a private foundation is too great, but who still want to be strategic in their giving and create a legacy, BenefAction’s Ms. Elkins says.

The Treasure Hunters

As well as administering DAFs, many public community foundations provide guidance on where clients’ donations will have the greatest impact. And, depending on how they are administered, DAFs can also receive applications from grant seekers, making them ideal for families who are looking to learn more about new charitable opportunities.

The Legacy-Seekers

Naming a DAF can be a unique and meaningful first step in establishing a family’s charitable legacy, but the potential doesn’t stop there. Practical legacy-building tools, such as granting advisors and successors, making recommendations on how account earnings are distributed in perpetuity, and bequeathing donations in wills, often prompt “great conversations around family values and what families care about,” RBC’s Ms. Button says.

“Legacy isn’t simply about providing financial resources,” Ms. Elkins adds. “It’s about ensuring philanthropic and community values find their way into the next

generation of Canadians. DAFs can be established with the intent of supporting a specific cause well beyond the lifetime of the individual who originally funded it.”

The Accountants

While cash is often the most popular type of DAF donation, other forms can yield additional tax benefits. Appreciated securities, for instance, let donors side-step the capital gains tax, while naming a foundation as an RRSP or RRIF beneficiary can offset a sizeable portion of the tax owed by clients’ estates. Then there are gifts of real estate, which extend the annual contribution limit of 75 per cent of net income.

Of course, many DAF clients deal with these tax issues through financial advisors, who can also help balance donations with long-term living expenses while aiming to ensure that donors live to see the fruits of their generosity.

The Patriots

Choosing to donate to cultural or environmental charities isn’t the only way for DAF clients to support those types of causes. Several organizations, such as the Alberta Foundation for the Arts and the Ontario Jewish Archives Foundation, can accept certified cultural property. Others, including Environment and Climate Change Canada, can accept ecologically sensitive land. If enriching and preserving the nation’s cultural heritage and natural beauty isn’t rewarding enough, both types of donations are also eligible for special tax benefits.

<https://www.theglobeandmail.com/investing/globe-wealth/article-what-kind-of-giver-are-you-five-donor-profiles/>