

# Philanthropic Planning

There are times when clients initiate the philanthropic planning discussion. The discussion might sound something like this:

*“I was at a seminar yesterday put on by the private client group at my bank, and they were talking about creating an endowment fund in our family’s name. Is that something I should consider?”*

Or,  
The client might talk about the brochure he/she just received from the local community foundation that suggests setting up a *field of interest* fund.

It is at these times when the professional advisor can be most helpful to the client, since charitable intent and interest have already been expressed. Understanding all the options a client has to work with will give definition and depth to a client’s philanthropic vision. They may help him/her to perpetuate a special interest in a charitable area and/or allow him/her to create a values-based plan that will involve future generations of the family.

## What?

### The Private Foundation:

Private foundations trace their roots to feudal England and perhaps even earlier. Over the years they have grown to be a major force in private philanthropy in Canada because they give the donor/client maximum control of his/her philanthropy within a strict set of rules, while fostering values-based planning and intergenerational involvement.

Although private foundations are still synonymous with the very wealthy, many families, individuals and corporations have created private foundations at modest levels in order to support registered charitable organizations in a structured manner consistent with their charitable objectives.

Increasingly the rules, regulations and expenses related to creating and administering private foundations in Canada have become burdensome and the income tax benefits are sometimes not as attractive as when gifts are made directly to registered charities. Some clients may seek other alternatives.

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## Community foundations offer many advantages at modest cost:

- excellent knowledge of local community issues and organizations
- donors can be involved in the grantmaking process
- there are no administrative responsibilities
- on-going sound management, investment and stewardship
- subsequent generations of the family can be involved
- named funds receive recognition in perpetuity
- donors can maximize tax benefits
- gifts of appreciated securities eliminate capital gains for tax purposes
- maximum flexibility for donors in the types of funds that can be established

## Endowed Funds for a Registered Charity

A client could establish an endowed fund at a community foundation, where the corpus remains intact and only the investment earnings are used to make grants to specific programs or projects determined by the donor. An endowment can be created to address a specific need (e.g., scholarships at a university for students from a particular region). It can be for a particular "field of interest" (e.g., education). Or its use can be completely unrestricted and therefore used to fund grants to the highest priority in the community. The fund can be named by its benefactor and is typically permanent in nature.

Although many endowments are established during a donor's lifetime, it is very often part of an estate plan where the donor seeks a permanent identification with one or more charitable organizations in which she/he had an interest.

## The Donor Advised Fund:

One type of endowed fund attracting more attention recently is the Donor Advised Fund (DAF) offered by your local community foundation. This fund is typically established by a donor who reserves the right to direct/advise as to which charitable organization(s) will receive the grant disbursements annually.

## Benefits to donor/client

- Like any fund within a community foundation, the DAF may carry the donor's chosen name or be anonymous.
- Current gifts to public foundations (i.e. community foundations) may receive more generous tax treatment than some gifts to private foundations.
- Since DAFs are administered and invested by the community foundation, it is a low cost, efficient alternative to a private foundation. Donors are able to practice organized philanthropy and maximize their charitable dollars while leaving the administrative burden to the community foundation.
- Generally no start up costs and no papers to file with CRA.

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## Planning Strategies:

### Perpetuating an Annual Gift to a Community Foundation:

A client has been a long-time supporter of the local community foundation. She/he has risen to the leadership gift level at \$10,000 a year. This annual gift is one that has been given each year for a number of years. If the client wishes to maintain that level of giving beyond his/her lifetime, it can be achieved as part of an estate plan. She/he could use any of the options noted under the "Estate Planning" section or make a gift of a life insurance policy to the foundation.

In the gift document (will, CRT, etc.) it would state that the gift was being made for an endowed purpose. In order to perpetuate a \$10,000 annual contribution, it is recommended that the client make a gift of at least \$ 250,000 that, if invested for total return by the foundation with a 4% spending requirement, would perpetuate the annual gift.

If the corpus of the endowment grows through sound investment management over time, the annual distribution is also likely to increase.

### Taking Advantage of a Windfall Opportunity:

A client received an unusually large amount of income this year and needs to generate substantial tax credits. Suggest to the client that she/he meet with the Executive Director of the local community foundation, where the client can open a charitable gift fund.

### The procedure is simple:

- She/he fills out a simple two or three page form to create the fund.
- Client makes a gift of cash or appreciated securities to the foundation and the net proceeds are credited to the donor's fund account.
- Client will receive a donation receipt for the year the gift is made to the fund.
- Client reserves the right to make future grant recommendations to the foundation and usually can appoint family members or others as successor grant advisors to the fund.
- Client maximizes charitable tax credits in the years when they are most needed as a tax advantaged alternative to a Private foundation.