



THE CALGARY
FOUNDATION

Focus on Philanthropy

A Guide to Charitable Giving for Professional Advisors

Focus on Philanthropy is a tri-annual Newsletter about charitable gift planning edited and produced by The Calgary Foundation. It is distributed to professional advisors in Calgary and surrounding area.

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General overview
Public vs. Private
Foundations
Endowment Calculator
How We Invest

The Right Option

Who donates
Types of Gifts
Types of Funds

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Endowment Calculator

 Professional Advisors
e-Resource:

A toolkit for helping
clients achieve their
philanthropic goals.

**In the 2007 Federal Budget,
the elimination of capital gains
on donations of publicly listed
securities to private
foundations, was good news
for Canada's charitable sector.**



Impact on Charities & Private Foundations

DeWayne Osborn's article provides important 'nuts n bolts' information on the provisions for charities and private foundations in the 2007 Federal Budget.

Budget gives clients lots to consider

Jonathan Chevreau, in his blog for the National Post writes, "The federal budget contains an abundance of planning opportunities for financial advisors..."

Giving Options Chart

A comparison of three approaches to giving: A Community Foundation Fund, Commercial Donor Advised Fund and a Private Foundation.

SAVE THE DATE

Tuesday, June 5th, 2007

7:00 am - 9:00 am

Glencoe Club

Breakfast Workshop

Susan Turnbull



Principal, Personal Legacy Advisors
Author of

**'The Wealth of Your Life:
A Step-by-Step Guide for
Creating Your Ethical Will'**

For more info contact:

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Wrap Up of 'The Ultimate Gift'

Philanthropy Goes Hollywood ...
over 700 guests of The Calgary Foundation, including professional advisors and their clients, donors, family and friends, recently enjoyed 2 premiere screenings of "The Ultimate Gift."

The movie, currently in mass release across North America, is based on the best selling book that challenges people to change the world through the gift of giving.

www.theultimategift.com

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Federal Budget 2007 – Impact on Charities and Private Foundations

BY: DEWAYNE OSBORN CGA, CFP
LAWTON PARTNERS

THE CANADIAN FEDERAL BUDGET FOR FISCAL YEAR 2006 - 2007 was presented to the Canadian House of Commons by Finance Minister Jim Flaherty on March 19, 2007. The main element relevant to charitable giving is the extension of the exemption from tax on capital gains realized on gifts of publicly listed securities to such gifts to Private Foundations.

Provisions for Private Foundations:

For gifts of publicly traded securities to Private Foundations made after March 19, 2007, no capital gains will be included.

Same is true for public securities derived from exercising options provided they are donated to a private foundation within 30 days of acquisition and in the same year as they were acquired (same as for public charities). Result: no income inclusion, which is the same as for public charities.

Excess Business Holdings for All Foundations: Designed to overcome the control issue and publicly traded securities, there are three ranges of share holdings in a foundation EACH with different implications:

- (1) **Safe Harbour:** The Foundation and any non-arms length person holds 2% or less of any class of shares of a corporation. If true, no additional monitoring or reporting of any non-arm's length person is required.
- (2) **Monitoring Phase:** Any foundation that along with non-arms length persons, own >2% of any class of shares must report annually on the amount held by it AND by any non-arm's length person. Secondly, it must report on its year end report (T3010A) any material transaction (acquisition or selling of >\$100,000 OR .5% of any share class).

- (3) **Divestment Required:** When the foundation and any non-arms length person own >20% of any share class, it must divest down to the 20% level within one to five years depending on how the shares were acquired. The foundation will be subject to 10% penalties as long as it and the non-arms length person owns > 20%. If the divestment is not complete, then shares received after March 19 2012 will not received the zero inclusion rate.

For excess holdings before March 18, 2007, the foundation will have 5 years to divest its holdings to be in line with these new regulations.

Alternatively, in all cases above, the person can divest so that when considered with the foundation's holdings, the total does not exceed 20%. Any of the Foundation's holdings outside of the Safe Harbour Level will be public Information. The information to include: name of corporation, total % shareholdings of the foundation and the non-arm's length person together. The identities of the non-arm's length persons will not be revealed.

Anti Avoidance Measures: In order to ensure compliance with the above, anti avoidance measures will be introduced in the future.

Non-Arm's Length Person for Excess Business Holdings Ranges above: Defined to include individual, group of individuals, corporation that control the foundation and anyone related to the controlling individual or group or corporation. The non-arms length persons holdings are not required to be disclosed if less than \$100,000 OR less than or equal to .5% of the total class of shares. NOTE: If 18 or older and living apart, one is considered at arms length provided the Minister of National Revenue agrees with the foundation's submission in writing.

Provisions for all charities:

Loan backs: Some measures were introduced to catch donors using trusts to avoid the loan back provisions. Basically, these new provisions treat gifts using trust as if made direct to the charity. Secondly, some charities attempted to get around the loan back provisions by using arms length donors. These are now caught in the same regulations.

Donations of Medicines to Developing Countries: Companies that donate to Cdn. charities that have received a disbursement under the Canadian International Development Agency and the activity is outside Canada. The company receives extra benefit equal to the lesser of: 50% of the difference between the FMV of the medicine and its cost, the cost itself. For

example< if the FMV of the medicine = \$100, the cost \$20. The company get a donation deduction = \$120. (FMV - cost = \$80 X 50% = \$40. Cost = \$20, therefore, use \$20 cost.)

Lifetime Capital Gain Exemption for Private Company Shares: The lifetime \$500,000 capital gains exemption for qualified private companies is increased to \$750,000 for disposition after March 19, 2007. This deduction can influence the timing of donations of privately held securities to public charities in particular.

Designated Stock Exchanges: Three new Tiers of exchanges will be created. For gifting purposes, use of Prescribed Stock Exchange (zero inclusion rate securities) will be replaced with Designated Stock Exchange.

Budget gives clients lots to consider

JONATHAN CHEVREAU, FINANCIAL POST
PUBLISHED: MONDAY, MARCH 26, 2007

LAST WEEK'S FEDERAL BUDGET—THE THICKEST IN years at almost 500 pages—contains an abundance of planning opportunities for financial advisors.

In a post-budget presentation to 19,000 advisors, AIM Trimark Investments' vice-president of tax, Jamie Golombek, focused on four major new strategies that come out of the budget.

The first, the extension of the RRSP conversion age from 69 to 71, we looked at on Saturday. This welcome move has created the most client questions, Golombek says. Advisors with clients this age who have already converted to RRIFs now have more flexibility and a chance to grow their investments tax-free a few years longer.

Clay Gillespie, an investment advisor with Vancouver-based Rogers Group Financial, says the withdrawal schedule is still calculated the same way as it used to be: The percentage of a RRIF that must be withdrawn in any given year is "one over 90 minus your age."

Until the budget, the minimum withdrawal at age 70 was 5%, jumping 43% to 7.38% at age 71 and 7.48% at age 72. As of Budget 2007, the first withdrawal rate will be the same 7.48% for those who are 72. As before, this passes 10% by age 85 and 20% by 94.

While welcome—particularly for seniors who wish to continue working full-time—the two-year extension doesn't make up for the non-materialization of the promised capital gains tax rollover provision. The closest comparable relief was the raising to \$750,000 of the lifetime capital gains exemption for small businesses, farmers and fishers. The previous limit of \$500,000 had been in place since 1985, notes Toronto advisor Warren Baldwin, so that really only keeps pace with inflation.

The only other bit of capital gains relief came from the budget's extension of tax-free capital gains

on securities donated to private foundations as well as registered charities and foundations.

Because of pre-budget media coverage, many clients seem to be under the impression full income splitting is now possible for working families.

That is not the case: The budget confirmed seniors will be able to split pension income, as announced on Oct. 31, but did not extend this to include full income splitting for working families. Thursday's Ontario budget also extended pension splitting to Ontario tax payable, and introduced a more flexible Life Income Fund (LIF).

Golombek sees major new planning opportunities for Registered Education Savings Plans (RESPs). The federal budget raised the lifetime RESP contribution limit from \$42,000 per child to \$50,000 and bumped the Canada Education Savings Grant (CESG) to \$500 from \$400. Since it is calculated as 20% of the amount contributed, that means it will take a \$2,500 annual contribution to generate the \$500 grant. The lifetime limit on the grant (per child) remains \$7,200.

However, as he noted in FP Weekend, Golombek encourages some families to make large initial lump-sum RESP contributions, which wasn't previously permitted.

Assuming an inheritance or similar windfall is available, parents or grandparents could make upfront RESP contributions for children and forgo the grant. Golombek says the extra tax sheltered growth of the investments in a lump-summed RESP will more than make up for lost grants.

For example, grandparents may prefer to give grandchildren an early inheritance by letting them contribute \$50,000 upfront into each child's RESP. If this is invested conservatively in a bond or GIC paying 5% interest annually, that would generate \$2,500 a year

in interest, all tax sheltered. That's five times more than the \$500 annual grant.

Golombek also foresees hybrid strategies for those who wish to get partial grants and invest in equities outside an RESP. For a child born last year, it might make sense to contribute \$5,000 immediately to the RESP to generate \$1,000 in the grant (qualifying for last year and this year). The other \$45,000 (assuming such a lump sum is available) could remain in non-registered equities and gradually be transferred to the RESP over the years, generating annual grants with each transfer.

Many investors hoped to see the Tories deliver on their election promise on full capital gains tax relief or possibly a Tax Pre Paid Savings Plans (TPSPs), modelled after U.S. Roth plans. Neither happened last week.

However, the RESP is the model for a brand new program that should give advisors fresh new planning opportunities for families with disabled members.

The relevant new acronym is RDSP, for the Registered Disability Savings Plan.

This becomes operational in 2008. As with RESPs, contributions to RDSPs will not be tax-deductible but investment earnings in the plans grow tax-free. The RDSP has a huge lifetime contribution limit of \$200,000. As is now the case for RESPs, there is no annual contribution limit, so a lump-sum approach could be used with RDSPs, too.

While there is no upfront tax deduction to stimulate RDSP contributions, Ottawa will hand out the Canada Disability Savings Grant (CDSG) — analogous to the RESP program's Canada Education Savings Grant or CESG. The CDSG is paid until the end of the year the beneficiary turns 49. The maximum CDSG paid to any one beneficiary is \$70,000.

The CDSG is worth 300% of the first \$500 annual RDSP contribution for families with net income below \$74,357 and 200% on the next \$1,000 contributed. For families with higher net income, the CDSG will be 100% of the first \$1,000 annual contribution.

To participate in RDSPs, beneficiaries must be eligible for the existing disability tax credit and need a social insurance number. Contributors can save into the plan until the end of the year they turn 59. Payments from the RDSP begin when the beneficiary turns 60. The annual maximum withdrawal limit is based on the recipient's life expectancy and the fair market value of the RDSP.

One thing Gillespie likes about the RDSP is that amounts paid out will not affect calculations of federal income-tested benefits, including old age security or employment insurance. That's a "big deal," Gillespie says.

However, as Golombek notes, it remains to be seen whether the provinces go along with making RDSP withdrawals independent of various provincial means-tested programs.

Gillespie expects planners may develop some interesting strategies around the phased retirement provisions of the budget.

People can now work a few days a week and still accrue 60% of their benefits in Registered Pension Plans. Retirees who gradually cut down on their working week generally have a more successful retirement than those who stop working cold turkey, Gillespie says.

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Chevreau's blog is at www.nationalpost.com

Comparing three approaches to giving

Discover the benefits of working through your community foundation

<i>Items to consider</i>	Community Foundation Fund	Commercial Donor Advised Fund	Private Foundation
Background	<p>National network of 155 local foundations, created by, and for, their communities. Work in collaboration with local charities.</p> <p>Pioneered Donor Advised funds in Canada establishing first fund in 1952.</p>	<p>Led by financial institutions and investment management firms.</p> <p>Came to Canada in 2004.</p>	<p>More than 2,300 active foundations in Canada. 85% are family foundations.</p>
Administrative Requirements			
<i>Start-up costs</i>	None.	None.	Legal and accounting expenses. Filing fees.
<i>Minimum contribution</i>	Accessible to individuals of more modest means >\$10,000. Some foundations allow several deposits to reach minimum. Minimum depends on individual community foundation.	Varies from \$10,000 to \$250,000.	No mandated minimum but expert opinion varies from capital of \$1-million to \$5-million.
<i>Ongoing costs</i>	Pooled administration provides economy of scale, lowers annual fee to the 0.5% to 1.5% range.	Fees vary from 1.5% to more than 2.5%. Additional fees may be charged for grant distribution, reporting and trailer fees.	Administrative fees vary from .75 to 1.5% of assets, depending on size and staffing.
<i>Reporting</i>	Community foundation handles reporting.	Foundation administering commercial gift fund handles reporting.	Accountant, lawyer or staff person handles reporting.
Governance	Arm's length Board of Directors and committees comprised of cross section of local community leaders.	Board membership varies but generally includes members of financial institutions senior staff and board of directors.	Board comprised of trustees/directors initially chosen by the donor. More than half of Board may be persons in a non-arm's length relationship with donor.

Tax Status	Public charity.	Public charity.	Public charity.
Donor Involvement	<p>Donor can recommend grants to qualified non-profit groups. Grants are approved by community foundation board of directors.</p> <p>Donor can name fund for family or other loved ones. Can involve family in process and appoint successors to advise on fund after death.</p> <p>Local foundation can help donors develop focus and process for their granting.</p> <p>Opportunity for involvement in high-impact community leadership initiatives, foundation events, site visits as desired.</p>	<p>Donor can recommend grants to qualified non-profit groups. Grants are approved by trustees of the gift fund.</p> <p>Donor can name fund for family or other loved ones. Treatment of fund after death varies.</p>	<p>Donor appoints board, which controls investments and grantmaking.</p> <p>Donor can name foundation for family or other loved one and involve family in process.</p>
Donor Options	<p>Work with local experts in philanthropic administration and grantmaking to choose from wide variety of funds. Giving and granting tailored to individual's needs and goals.</p> <p>Can coordinate giving and support entire range of charities.</p> <p>Gift agreements could take as little as 24 hours to complete.</p>	<p>Usually one fund offered with several investment options.</p> <p>Can coordinate giving. Some limits on number of grants per gift.</p> <p>Gift agreements could take as little as 24 hours to complete.</p>	<p>Donor sets up foundation according to his/her wishes.</p> <p>Can coordinate giving and support entire range of charities.</p> <p>Set up of foundation can take 6 to 12 months.</p>
Tax Considerations:			
<i>Tax Credit</i>	Donors can claim credit to a maximum of 75% of their net income. Excess can be claimed in any of the next five years.	Donors can claim credit to a maximum of 75% of their net income. Excess can be claimed in any of the next five years.	Donors can claim credit to a maximum of 75% of their net income. Excess can be claimed in any of the next five years.
<i>Appreciated stock</i>	Capital gains tax is eliminated.	Capital gains tax is eliminated.	Capital gains tax is eliminated.
<i>Private company shares stock</i>	Immediate tax savings for most gifts of private company shares.	Immediate tax savings for most gifts of private company shares.	Tax savings are deferred and may be denied. Donation receipt can only be issued at time of disposition which must be within five years.

Grantmaking Support	<p>Professional staff and board of community leaders can help identify and assess local grantees, provide input on changing community needs, and verify non-profit status of groups.</p> <p>Foundation makes grant payments, monitors performance, reports to donor.</p> <p>Expertise and advice in broad range of granting areas including the arts, health, education, social services, the environment.</p> <p>Understanding of issues and connections in community creates opportunities for innovative work on pressing issues such as poverty.</p> <p>Strong relationships with government bodies, other funders and agencies.</p>	<p>Only Bank of Montreal FG offers local charitable expertise at national level.</p> <p>Foundation makes grant payments and reports to donor.</p>	<p>Foundation board and/or staff arrange and support grantmaking and monitoring structure.</p> <p>Foundation can adopt innovative approach to grantmaking, based on foundation's chosen mandate.</p>
Investment Management	<p>Community foundation board sets investment policy.</p> <p>Investment committee made up of volunteer investment and finance professionals who recommend the hiring of investment managers and monitor their performance.</p>	<p>Participating financial institution sets investment policy in conjunction with public foundation.</p> <p>Financial institution's investment arm manages the funds.</p>	<p>Trustees/directors set the investment policy.</p> <p>Trustees/directors manage the funds directly or hire professional investment managers and monitor their performance.</p>

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