As seen in… FOUNDATION
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THE ACCIDENTAL PHILANTHROPIST
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Fundraising In Challenging Times

BY MARK HALPERN, CFP, TEP, MFA-P, WEALTHINSURANCE.COM

Raising money during a pandemic requires tenacity, skill, and a measure of luck. But it can be done.

Canadians are very charitable people, and our government has inspired more giving by introducing 29 pieces of charity-friendly legislation since 1995.

During pre-COVID times (the olden days) we have typically donated about $10.6 billion annually, but the COVID-weakened economy changed that. Many charities have felt the sting, cutting costs, closing offices, and laying off staff.

Now, more than ever, better communications with donors and supporters is essential.

Over 30 years in the financial services industry, I have had the pleasure to advise many great charities, large and small.

We currently assist SickKids Hospital Foundation, St. Joseph's Hospital Foundation, St. Michael's Hospital Foundation, Scarborough Health Network, TVOntario (TVO), Oakville Community Foundation, Jewish Foundation of Toronto, Bishop's University, York University, and several others, including many lesser-known charitable organizations.

While helping with their fundraising activities, I explain to charity executives and their colleagues the kinds of conversations we have with clients, and the options available to make their charity a magnet for generous Canadians.

Charitable giving by parents and grandparents teaches children the importance of giving, promotes happiness and enables people to express their gratitude for a school, medical facility, or religious organization in synch with their beliefs.

Many people donate to charitable causes to affirm their own values, like compassion for those in need, or a personal connection with a specific charity or cause. Donors often weigh the costs and benefits of giving, including intangible benefits for themselves, like the positive feeling one gets from being charitable, or looking good to others.

Most generous Canadians know that giving can reduce their taxes, but the vast majority are unaware of several great strategies available to maximize their giving while minimizing their taxes. When they become aware of those structures, their gifting typically increases.

Giving strategies

No one has properly explained to most of them that donating by cash, check or credit card is the least cost-effective way to be generous. There are so many other ways for donors to be generous, including gifts and bequests in a will, donating appreciated securities owned personally or by their corporation, donating Life Insurance (an existing policy, a new policy, or a beneficiary change); beneficiary change or donation of the retirement income obtained from an RRSP or RRIF.

More sophisticated giving strategies include the use of Flow Through Shares, RRSP/RRIF meltdowns, CPP Philanthropy™, private company share donations, setting up a private foundation or a Donor Advised Fund (DAF) at a Community Foundation, and others.

No two situations are exactly alike so there are no cookie-cutter solutions. All the moving parts working in harmony allow donors to be both philanthropic and tax advantaged.

Fundraisers need to improve communications with donors and prospective donors, since making them aware of better giving strategies makes giving easier. Not for profit executives and their colleagues in the marketing and donor development departments at charities and foundations will see a rise in transformational gifts when they improve communications and educate supporters on smart(er) giving strategies.

We are experts in raising money for charity, usually by helping clients convert dollars that would otherwise go the tax department. Tax dollars become charitable gifts.

In 2020 our company helped raise a total $61 million (during a COVID-19 year). Our corporate goal this year is the creation of $100 million of new charitable gifts, working with clients, charities, foundations and allied professionals like accountants, lawyers, bankers, investment and insurance advisors.

No insurance, little savings

Earlier in this article I mentioned three decades in the financial services industry. My professional credentials include Certified Financial Planner (CFP), Trust & Estate Practitioner, and Master Financial Advisor – Philanthropy (MFA-P).

But my real start in this business dates back to 1974, when my late father, of blessed memory, died of a sudden heart attack at the age of 50. There was no life insurance, and little savings. I was 11, the youngest of four boys. My late mother, of blessed memory, then 48, had to find a job to support us. In a sudden, shocking instant our lives changed forever, and that experience is the nucleus of my commitment to protecting other families.

When dealing with clients in a philanthropic conversation, my first objective is to make sure they can live a long and healthy life and not run out of money, while ensuring their hard-earned money will not scooped up by the tax department when they die.

That is accomplished by making sure their financial architecture matches up with their financial furniture and that it changes appropriately over time as situations evolve.

I truly enjoy sharing with charities and foundations the tax minimization strategies that use tax exempt financial products that most people don't know much about. Our team provides that educational wisdom and we act as a legacy process consultant when dealing with donors.

Life insurance and philanthropy

This recent case used marketable securities for philanthropy.

A successful business owner had a $2 million income tax liability. Most of his assets were illiquid and he didn't want to use cash on hand to pay the taxes. He had a stock portfolio worth $10 million, with a very low cost-base, so he was 'pregnant' with significant capital gains and understandably reluctant to sell any shares as that would trigger an immediate and additional tax liability.

We helped him establish a Donor Advised Fund (DAF) at a Community Foundation. He donated $4 million of the appreciated stock to his DAF which generated a charitable receipt of $4 million to offset the entire $2 million tax liability. Donating those securities to charity saved a further $1 million of capital gains taxes he would have incurred if had he sold the securities personally.

His DAF is legally required to annually distribute a minimum of 4 percent of its value to any number of registered Canadian charities. The professionally managed DAF earned a return of 10 percent on $4 million last year, or $400K. The interest earned by his DAF is non-taxable. We used a portion of that interest income, $200K, to fund the premiums on a new $10 million Joint and Last to Die Life Insurance policy, owned by his DAF. Many executives at charities and foundations don't know that Life insurance can be owned and paid for by a DAF.

His $2 million tax liability was eliminated and became a charitable donation. Additional capital gains taxes payable of $1 million on the sale of the donated shares was turned into charity. A total charitable gift of $14 million was created. He will be remembered for creating a generous charitable legacy instead of giving a large sum to the tax department.

Most people think the only benefit from a life insurance policy occurs when they die. But many a philanthropist can benefit from a life insurance policy when they are still alive.

Harold, another client, is a retired accountant in his mid-60s who had a $500,000 life insurance policy he didn't really need. He wanted to donate the policy to his alma mater, so we arranged for an independent actuary to determine its current value. Because Harold was now uninsurable (due to some health issues), the actuary valued the policy at $290,000. Harold donated it to the university, received a charitable donation receipt for the entire $290,000 value, and saved about $145,000 in taxes.

Going forward, he could have continued paying the insurance premiums and received charitable tax receipts for the amounts paid, lowering his taxes in the future.

But he really did not want to continue paying the premiums on his gifted policy, so the school (as happens in many such situations) found another generous donor who agreed to pay all the future premiums. The donor paying those premiums receives an annual charitable receipt for his donations, and along with Harold, was recognized by the university for their generosity.

If your donors have invested in the stock market over the past 10 to 15 years, they undoubtedly have some appreciated securities with 'pregnant' taxable gains. If you suggest to them that they simply donate some of those shares they will receive a charitable receipt for their full (appreciated) value and pay zero capital gains taxes on them.

Megadonors often prefer to donate funds corporately because they can get a 100 per cent corporate deduction. The gains on the donated funds are credited to the corporation's Capital Dividend Account (CDA) and can now be withdrawn tax-free and used for whatever purposes they want.

Greatest opportunities for legacy gifts

Many charities with substantial (or small) lists of current donors, prospective donors and supporters ask us 'where' to focus their fundraising efforts. Who should they approach, where can they raise the most money efficiently, and what messaging will resonate best?

The answer to that question falls into 3 categories:

1. ***Singles, Widows and Divorcees*** - Most people in that cohort do not know that upon their death, the government will scoop as much as 54 percent of their accumulated savings in Registered Retirement Savings Plans (RRSPs) and Registered Retirement Income Funds (RRIFs). Married people, in contrast, enjoy a tax-free transfer to those assets to a surviving spouse. Several strategies are available to preserve that hard-earned money for charity and family.
2. ***Business Owners who have completed an Estate Freeze*** - can make substantial charitable gifts using the Private Company Share Donation Strategy that minimizes tax liabilities, facilitates charitable giving and leaves more for family and loved ones.
3. ***People who have Sold a Business or Disposed of a Major Asset*** - If they have sold or are about to make a major disposition, this will be the year they will probably have their largest tax bill — the perfect time to consider making their largest charitable donation. A donation will offset all or part of their tax bill and create a credit in the Capital Dividend Account. They can donate generously, reduce or eliminate their taxes, ensure that their family is covered and fully reimbursed for all of their charitable good will.

Create your own family legacy

Supporting favourite charities can be emotionally fulfilling and financially rewarding, reducing donors' current and/or future tax load. It also enables them to save more for loved ones while creating a family legacy that will carry their name for many years to come.

Not a DIY project

Many of the strategies described above require professional help from accounting, legal and estate planning professionals. They are not "all or none" propositions, nor are they designed for do-it-yourselfers.

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Learn more at www.WEALTHinsurance.com

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