



The Value of Asking

the Right Questions

Susan Moore, Com'go Wealth Specialist for the Menard-Kinkaid Team at RBC Dominion Securities and a member of the Queen's Gift Planning Advisory Committee. Susan is not only an alumna - she is also a proud Queen's parent. Here, Susan offers guidance and insight into the questions you may ask your financial advisor to help you achieve your philanthropic and personal goals while offering income tax advantages.

Many of us make charitable donations. We do it on a regular basis to institutions like Queen's that are close to our hearts. As our level of giving increases, the donations tend to become more strategic. The key to strategic donations is planning. You should be working with your financial advisor to develop a long-term plan for your giving that aligns with your personal circumstances and philanthropic goals and with a view to maximizing tax effectiveness.

Timing is Everything

Wherever possible, it is a good idea to consider the potential tax benefits that you can realize by timing your charitable dona-

tions appropriately, both to ensure the donation tax credits will not expire, and to ensure the donation will reduce as much tax as possible. A tax credit on donations may be claimed up to a limit of 75% of net income. If you exceed the 75% net income limit, you can carry the excess donations forward for up to five years, but any credits not used in five year period will expire.

The federal donation tax credit rate for donations over \$200 is 33% to the extent that an individual has taxable income taxed at 33%. However, where the donation tax credit is carried forward to be claimed in a subsequent year, the tax credit will not be eligible for this high 33% rate, so timing your donations can make a difference.

For example, making a charitable gift at the time that you sell property or your business, or when you exercise stock options, may help reduce your tax liability. If you choose to donate the proceeds, or a portion of the proceeds from the sale of a business, you may receive a tax credit for the value of your donation which could result in significant tax savings for the tax year in which you made the gift. A com-

prehensive financial plan can help to ensure that tax credits or deductions will be used most efficiently.

Donations as Part of Your Estate Planning

Making charitable bequests as part of your estate plan can also be tax-effective. Depending on your situation, your executors may have the flexibility of allocating this donation to the tax year of the estate in which the donation is made, to a previous tax year of the estate, or to your last or next-to-last taxation year. The income limitation increases to 100% of your income for gifts claimed in the year of your death and for the preceding year.

Donate to Eliminate

If you wish to provide significant estate-related gifts to Queen's and want to maximize your tax benefits, you should consider a "donate to eliminate" strategy during your lifetime – that is, donating in two or more parts; an outright gift while alive, and a gift through your estate. This may eliminate the conundrum of having unused charitable donation credits. As with any plan, it is important to review your personal situation in detail with your financial advisors.

Consider the example of an alumnus who is considering starting an endowment at Queen's while alive and enhancing the endowment with a bequest. The minimum threshold for creating an endowment at Queen's is currently \$50,000, which can be paid over a five-year period, or \$10,000 per year for five years. In this case, the alumnus has the opportunity to maximize the credit to income tax at the high rate, while minimizing the risk that donation

credits will expire. In addition, the alumnus could gift publicly traded securities with the highest accrued gain, thereby benefitting from both the tax credit as well as the elimination of the inherent tax liability associated with the shares, thanks to a special tax rule that eliminates the capital gains tax that would otherwise apply to such donations.

What Questions Should You Ask?

Here are some questions to help spark further conversation with your financial advisor and help you better plan your charitable giving strategies:

1. Is my financial plan sustainable? Does my charitable gifting strategy mesh with my current financial plan?
2. Which of my assets are creating the largest tax liabilities for me?
3. What is the most tax effective way for me to make a gift to charity during my life? How large of a tax credit can I use this year? Can income tax projections be prepared to help spot opportunities?
4. Are there estate related direct designation gift opportunities that I should consider, e.g. insurance or registered retirement funds? Do my insurance policies represent opportunities to gift?
5. What is my expected tax liability at my death? What opportunities are there to mitigate this tax liability?
6. When would tax credits be most useful/tax effective? Should I make my donations annually, through my estate, or both? Are there tax smart ways for me to combine gifts in life with my estate related gifts?
7. Do the directions in my will reflect my current financial plan?

Conclusion: Planning Makes a Difference

Canada has one of the most generous tax systems for charitable giving, and with so many ways to give, it is wise to seek professional advice. Speak with your financial advisor about the tax benefits of giving as part of your tax and estate planning. Understanding the rules for donating assets can make a big difference when it comes to capital gains tax. Moreover, it provides you with a chance to make a real difference to a charity by planning the way you choose to give.

The timing, amount and type of your charitable gift will depend on your unique situation as will the associated income tax and estate planning implications. It all starts with a good plan. Queen's strongly recommends that donors seek independent legal and financial advice.

To learn how you can make a difference, simply contact the Gift Planning office at 1-800-267-7837 or by email at gift.planning@queensu.ca. The Queen's Gift Planning team is always available to partner with you and your financial planning team to help you achieve your philanthropic goals.



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