

A Guide for Professional Financial Advisors

The Philanthropic Conversation



This guide is based on a series of ten articles originally published by WealthProfessional.ca in 2015. The articles have been edited and condensed into this review of Canadian facts, insights, and advice for professional financial advisors.

The series of articles was inspired by a unique Canadian research study: *The Philanthropic Conversation: Understanding Financial Advisors' Approaches and High Net Worth Individuals' Perspectives*. The study, released in November 2014, was a partnership of BMO Wealth Management, the Canadian Association of Gift Planners (CAGP), The GIV3 Foundation and Philanthropic Foundations of Canada (PFC). Conducted by Ipsos Canada, this quantitative research explored two distinct samples:

1. Financial advisors recruited from across the country and screened to include only those who work with clients with investable assets greater than \$1 million.
2. High net worth individuals with investable assets greater than \$1 million, recruited at random from a pan-Canadian online panel.

For more information, permission to reprint this guide or to obtain a copy of *The Philanthropic Conversation: Understanding Financial Advisors' Approaches and High Net Worth Individuals' Perspectives*, please contact The GIV3 Foundation: contact@giv3.ca or CAGP: info@cagp-acpdp.org.

Table of Contents

01

Are you warming up your client relationships with the philanthropic conversation?

Page 6

02

Signs your client may need help with charitable planning

Page 9

03

How to start the conversation on charitable giving

Page 12

04

The basics of creating a charitable plan

Page 15

05

How much should clients give to charity?

Page 18

06

Involving the family in charitable planning

Page 21

07

Identifying legitimate charitable organizations and their impact

Page 24

08

Why your client might want to donate his or her best performing stock to charity

Page 27

09

Donating real estate and private company shares to charity

Page 30

10

Private foundations versus donor-advised funds

Page 33

Contributor acknowledgments

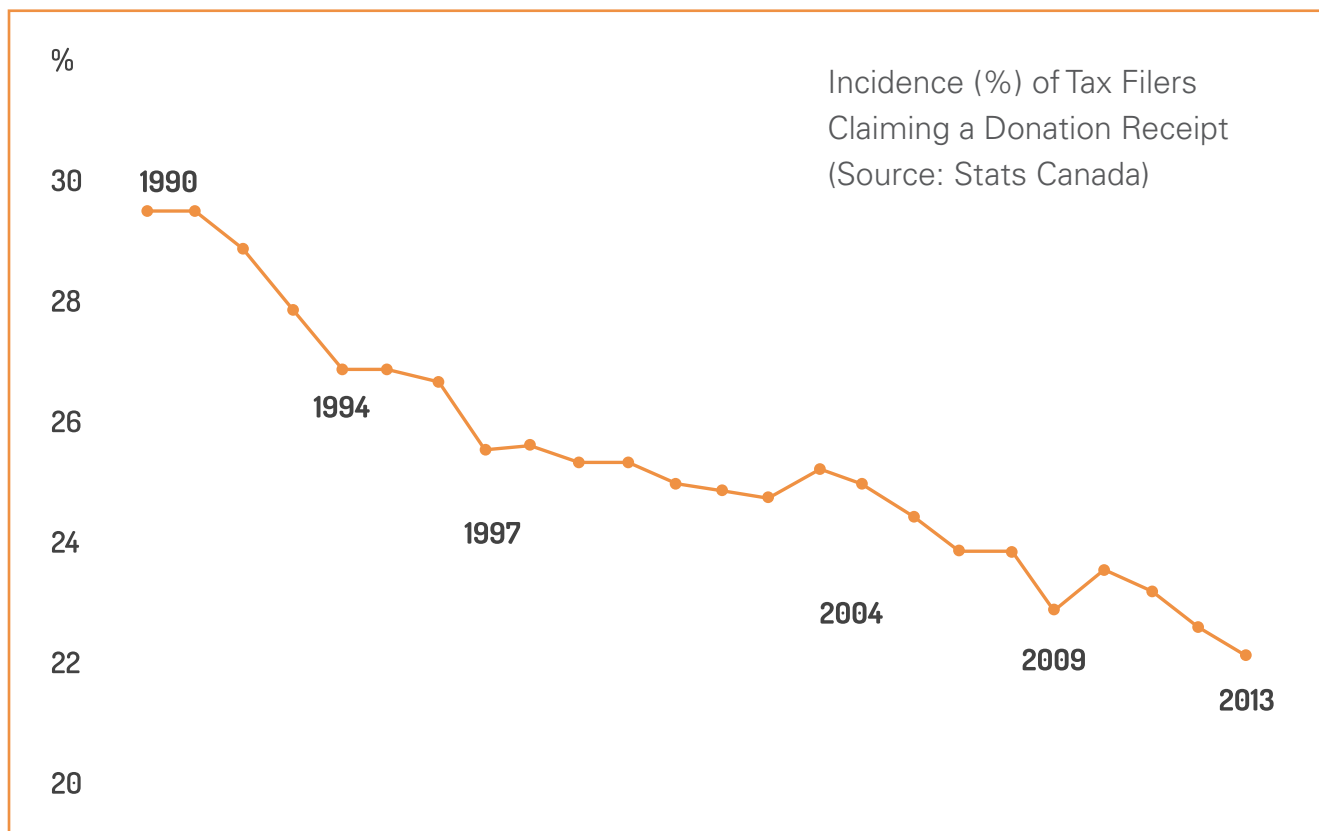
Page 36

Executive Summary: Canadian Survey of Financial Advisors & High Net Worth Canadians

Page 37

Philanthropy presents an array of opportunities as well as challenges for you, the professional advisor. Are you ready for the challenge?

It is a very tax-friendly time to donate to charities in Canada, and the vast majority of Canadians report that they donate regularly. However, CRA data shows that the incidence of charitable giving is declining. From a level of almost 30% in the early 1990s, the proportion of taxpayers claiming donation tax credits has declined to under 22% in 2013.



A recent Ipsos Canada survey of financial advisors and high net worth individuals on the incidence and nature of the philanthropic conversation provides a unique insight into the opportunity for advisors to engage in this conversation. The research was released by BMO Wealth Management, the Canadian Association of Gift Planners (CAGP), The GIV3 Foundation and Philanthropic Foundations Canada (PFC).

Among the many insights that can benefit financial advisors in Canada:

- **Wealthy Canadians are looking to their advisors to play a role, helping and advising them about their charitable giving.**
- **The findings confirm that talking to clients about philanthropy can help deepen the relationship as well as increase advisors' business through new referrals to family, friends and colleagues.**

With possible changes to tax law around capital gains tax exemption for donations of private shares or real estate, and the fact that these changes may or may not happen under the Liberal government, who better to keep clients informed than their financial advisors?

This booklet explores various topics around charitable giving as well as providing insight and resources to help you enhance your philanthropic conversations with clients.



01

Are you warming up your client relationships with the philanthropic conversation?

Philanthropy may not be at the top of the agenda when reaching out to clients, but the benefits of having meaningful discussions regarding philanthropy are tangible. Clients working with financial advisors are looking for the best ways to donate to charities while also meeting their financial and philanthropic goals. That means taking the conversation to a deeper level.

“Talking about philanthropy will strengthen and deepen relationships with clients.”
– Ruth MacKenzie, CAGP

of The GIV3 Foundation. “Interestingly, affluent individuals believe that having these conversations can help strengthen the relationship with their advisor.”

An Ipsos survey reveals that affluent individuals are interested in having philanthropic conversations with an advisor.

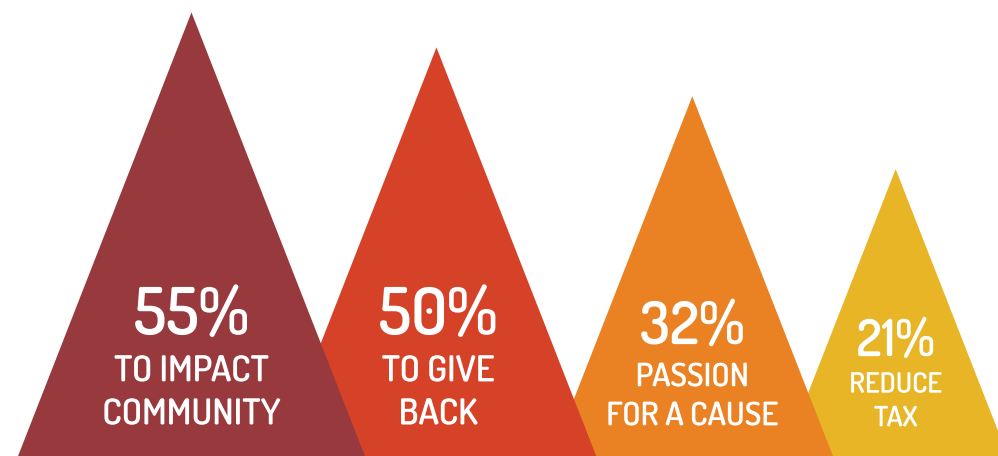
“Wealthy individuals who have philanthropic conversations with their advisor find them useful and highly satisfying. However, deep philanthropic conversations are seldom taking place” says John Hallward, chairman

Ruth MacKenzie, executive director of the Canadian Association of Gift Planners, an association that works with both financial advisors and charitable fundraisers, believes there is a big opportunity for financial advisors to be more involved, for the benefit of clients and advisors, as well as the causes and charities doing essential work in our communities.

“The incidence of charitable giving has been steadily declining for the past 30 years and financial advisors could make a big difference in helping turn that around,” says MacKenzie. Everybody wins, but for advisors in particular, there’s a clear business case – talking about philanthropy will strengthen and deepen relationships with their clients.”

Advisors do believe it is important and appropriate to raise the topic of philanthropy with their clients and most report that they are already having these conversations. **However, most wealthy individuals say that their philanthropic conversations are light and cursory in nature – not deep, meaningful discussions.**

To affluent Canadians, philanthropy is about much more than just tax reduction.



Wealthy donors are motivated mostly by their impact and emotions (more so than tax breaks)

Like many financial decisions, charitable giving often comes from a place of emotion. The research indicates that affluent Canadians are more interested in the emotional aspects such as their values regarding giving back and personal passions about how to make a difference. They are less focused on the technical or tax implications of giving.

According to Malcolm Burrows, head of philanthropic advisory services at Scotia Private Client Group, there can be significant benefits to advisors that enter into the philanthropic conversation.

“When they first broach the subject, some advisors are amazed at how open and interested clients are to talk about their personal values,” says Burrows. “Some of their most meaningful conversations are about how and where clients can make an impact putting their charitable dollars to work.”

“We will see a major increase in the need for knowledge about philanthropy and effective giving.”
– Hilary Pearson, PFC

Hilary Pearson, president of Philanthropic Foundations Canada, agrees that there is an opportunity for financial advisors to have an impact on the charitable sector.

“Canadians are likely to inherit very considerable legacies over the next twenty years as the baby boom generation moves into its 60’s,” says Pearson. “If even a fraction of this

inheritance is directed towards philanthropy, as it is likely to be, we will see a major increase in the need for knowledge about philanthropy and effective giving.”

Based on the experience of Malcolm Berry, vice president of major gifts for the SickKids Foundation, **a conversation about charitable giving can strengthen the bond between advisor and client in a way that you simply do not get from ordinary investment advice.**

“It’s pretty simple. If you can enable somebody to transform something, create an impact or fulfill a mission that is bigger than themselves – to help people they may never meet – it’s more powerful than simply making a gift or the tax benefits that come from it,” says Berry.

Financial advisors are starting to recognize that a comprehensive, holistic approach that includes insights into clients’ charitable values is good for business.

When the client conversation shifts beyond the technical issues around investing and tax reduction, to connecting about a client’s charitable aspirations, there is a real opportunity to strengthen the relationship.



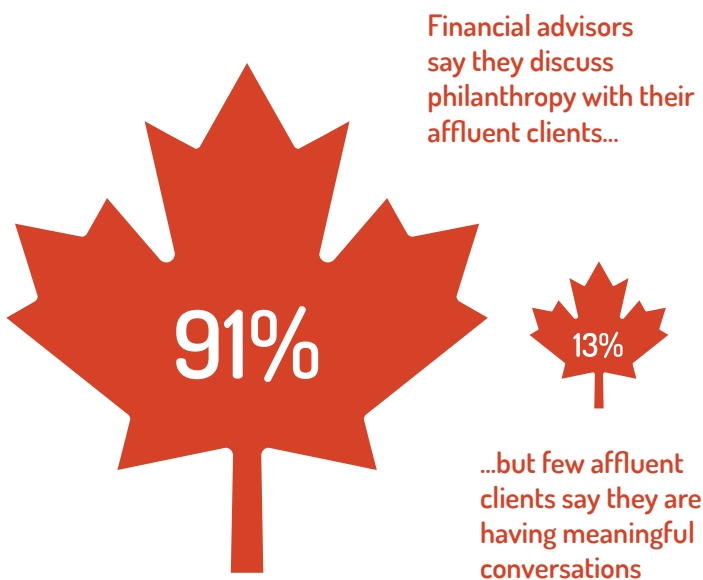
02

Signs your client may need help with charitable planning

Your clients are facing a cacophony of charities all clamouring for their donation dollars – which can position you, the advisor in an important role with clients when it comes to doing some charitable planning.

Financial advisors and their wealthy clients agree that having a conversation about charitable giving is important, yet clients say that this discussion is seldom happening, according to the Ipsos study on the nature of the philanthropic conversation in Canada.

Some clients donate several times during a year to the same charity, donate very different amounts from year to year, or donate to different charities every year with no real pattern.



This signals that they may be giving only in response to requests and this can be inefficient as well as less satisfying for the donor.

“Advisors could ask clients if their giving reflects their values. Would they derive more satisfaction if their giving was focused on one or two issues of great personal interest?” asks Marvi Ricker, vice president and managing director, philanthropic services at BMO Private Banking. “There are people who give a lot, but it can be all over the place. If you can see a pattern, then you know that they are thinking about it, and they are giving to issues that they care about,” she adds.

Another indication your client needs a plan: he or she may express frustration with charitable giving, wonder why they give to certain organizations or question what impact they are having.

It is likely that these donors don’t feel the sense of satisfaction or fulfillment that they should when making these generous gifts.

“When there is nothing personal about what they are doing, they get frustrated and less satisfied with their giving,” says Ricker.

“Individuals who have philanthropic conversations with their advisors find them useful and highly satisfying,” says Ruth MacKenzie, “Many of these individuals agree it helps to strengthen the relationship with their advisor, so there are benefits to both the clients and advisors of having this discussion.” Fortunately, there are often indications that clients need help with their charitable planning, so it’s a good idea to be on the lookout, says MacKenzie.

“The trick is to get the client to think about philanthropy instead of just charitable donations,” she believes, “as philanthropy is really geared to get at an issue to make a change. Then they are more likely to get more out of their giving,” Ricker says, “they are more likely to give more, and it is going to be a rewarding experience.” Another sign that your clients may need help is if they have difficulty keeping track of their donations. If they can’t find their charitable receipts, can’t remember if they donated with a cheque, online or using appreciated assets, they could probably benefit from a charitable giving plan.

Jo-Anne Ryan, vice president of philanthropic advisory services at TD Wealth and the executive director of the Private Giving Foundation, likes to encourage clients to develop a philanthropic plan in addition to their financial plan.

“There are 86,000 charities in Canada. Many are phoning and knocking at your door looking for money – and you can’t give to them all,” says Ryan. “So we go through an exercise with the client where you discuss the values that are important to them. We ask them ‘To what do you attribute your success? What kind of a legacy do you want to leave and how do you want to give back?’”

Financial advisors can help educate and work with these donors to identify ways to be more strategic and proactive in their charitable giving decisions as well as making the best financial decisions.

“Clients feel more satisfied about their giving... and will also appreciate the help and advice.”
– Malcolm Burrows, Scotia Private Client Group

“It is so important for advisors to be a part of this conversation,” says Malcolm Burrows. “For example, the focus tends to be on gifts from assets (estates, planned gifts), not annual gifts from income. Depending on the client’s age and stage in life, he or she should consider the pros and cons of giving from income compared to giving from capital.”



Whether or not you see any of these signs, it’s probably a good idea to open up a charitable conversation with your clients. They may not realize that advisors can help them identify strategies and resources to help them achieve their philanthropic goals.

Burrows asserts that **not only will clients feel more satisfied about their giving, knowing that their planning will further help the causes and charities they care about, they will also appreciate the help and advice.**



03

How to start the conversation on charitable giving

Starting a conversation with your clients on charitable giving can be a challenge. Nonetheless, doing so will not only show them that they can rely on you to help with their future financial security, but also that you care about their personal goals, values and how they wish to make a difference.

“The research shows that wealthy donors are open to and interested in having the conversation.”
- John Hallward, The GIV3 Foundation

Not all advisors are comfortable getting the conversation started.

“It can be delicate. Financial advisors are reluctant to ask about charitable giving for fear of implying that clients are not giving enough, or that they haven’t really thought about philanthropic issues,” says Marvi Ricker.

“The best way to start is with a simple question, ‘Are there any charitable considerations you would like to discuss?’ Just keep it open-ended, and then proceed based on how the person answers,” says Ricker.

According to the Ipsos study, advisors should feel confident initiating philanthropic discussions because virtually all of their clients are already givers. The research found that among the wealthy individuals who had conversations about philanthropy with their advisors, most found it useful and the vast majority were satisfied with the help they received regarding their charitable giving.

“When approached correctly, these conversations are useful, satisfying and help deepen the impact of philanthropic giving,” states John Hallward. “The research shows that wealthy donors are open to and interested in having the conversation with their advisor - and the sooner the better.”

While clients are open to talking about their charitable plans, it is still not that commonplace. The very nature of Canadians can make starting that conversation intimidating, according to



Doug Puffer, director of planned giving for Simon Fraser University.

“People tend to keep their giving plans private, and as Canadians we often don’t discuss our wills or our estates – even with our children,” says Puffer. “Instead, we entrust that information to lawyers and financial advisors, assuming that a neutral third party will be giving us appropriate advice about philanthropy.”

Puffer suggests that advisors open up that conversation by connecting with the client on an emotional level.

“When you connect with someone on an emotional basis, all of a sudden the relationship you have with that person is elevated to a whole different level,” he adds. “I’ve found when they do connect on that level, they are so grateful.”

Clients who are donors feel more rewarded and they are going to have deeper relationships with their advisors as a result.”

To get at a meaningful, more emotional level of conversation advisors can try asking questions such as:

- **Do you like to volunteer? Which volunteer experiences do you find the most rewarding?**
- **Which causes have you supported that gave you the greatest satisfaction?**
- **Are your partner, parents, children or grandchildren involved in your philanthropy?**
- **Do you have personal values that you feel you can express through charitable giving?**

Another catalyst for starting the philanthropic conversation is when there is “money in motion.” Money in motion may be the direct result of an inheritance, sale of a business or a divorce settlement.

“If somebody has passed away, then there is an inheritance. Or if a public company is being sold and the client is a shareholder, this is an obvious time to open the conversation,” says Jo-Anne Ryan.

If the money never does go “in motion” then there are other avenues to open a dialogue, such as having discussions with clients about the type of legacy that they would like to leave.

“Our advisors who are most successful in incorporating philanthropy in their discussions are the ones who are involved themselves in charitable causes,” says Ryan. “They can talk about their own volunteer work and other charitable interests as a way of opening up to clients.”

But sometimes, the direct approach is the best. “Another way is to just ask, ‘What do you plan to do with your money?’” suggests Ricker. “Beyond the basic needs that people have for housing, education of their children and general lifestyle, many of our clients will have excess money. Some have very definite plans as to how they want to spend it, others haven’t really given it much thought.”

However you choose to start the conversation, the evidence points to clear benefits of doing so. Ricker says that proactively engaging clients in a dialogue on charitable giving can pay dividends.

What could be better for the client/ advisor relationship than helping them realize their philanthropic goals while also achieving their financial and personal objectives?

04

The basics of creating a charitable plan

You're already the expert when it comes to creating financial plans with your clients – but the area of philanthropic planning may be unfamiliar territory. What are some of the things you need to consider when initiating a charitable plan with your clients?

First and foremost, starting a charitable plan involves hearing what your client has to say – and not being afraid to ask questions.

“It’s key to identify the causes and charitable values that are most important to the donor,” says John Hallward. “This may seem obvious, but it helps to make some choices and focus on the causes that they are most passionate about. Their choices may change over time, but it helps to start with a good idea of what they care about now.”

Hallward suggests that donors draw up a list of organizations they most like to support, based on personal interests, values and the impact those organizations have. Donors may be surprised that this list is relatively short and focused compared to the longer list of charities they have supported in the past, simply because they were solicited.

Norma Cameron, the principal and owner of The Narrative Company and a national board member of the Canadian Association of Gift Planners, agrees that identifying clients’ aspirations is necessary to get started.

“It has to start with listening – that is the number one thing for your clients,” she says. “Being courageous enough to ask specific discovery questions, about what has been important in their life so far, and how they see the rest of their life regarding what kind of society they want to support or create – and, ultimately what is their legacy going to be?”

Another important step in developing a charitable plan is to set an annual donation amount. While this may sound basic, many people simply make donations when asked and often aren’t sure what it all adds up to, or that it went to causes that matter most to them.

How much wealth is your client comfortable giving away during his or her lifetime?

How much do they want to leave to their heirs and beneficiaries? These questions are part of the discovery process Cameron recommends when creating a charitable giving plan.

Once your client has decided on their charitable goals, then it’s time to help them achieve them using the most efficient giving vehicles. What is his or her age and stage in life? Does it make sense to donate cash, from income, from appreciated securities or other assets? Should

he or she consider a donor-advised fund or perhaps setting up a private foundation?

“There are people who welcome recognition during their lifetime for what they do philanthropically; and others who shy away from

that public spotlight, and prefer to give quietly,” says Cameron. “Gifting through a foundation or donor-advised fund are options for those who wish to keep their giving anonymous.”

The decision about which giving vehicles to use will also depend on the client’s time horizon – some assets are immediately available, while others, such as appreciated securities, can require some time to manage for optimum efficiency.



It’s important to recognize that advisors don’t need to be charity experts to get started on philanthropic planning. The most effective charitable planning requires collaboration among a team of professionals, from wealth managers to accountants, notaries and lawyers, according to Jo-Anne Ryan.

“Advisors are not expected to know everything about philanthropy and the benefits of different gift vehicles. The most successful financial advisors are the ones who surround themselves with a team of experts such as lawyers and accountants who specialize in that area, along with the gift planners working at the actual charities,” says Ryan.

While not being an expert, the advisor should have a basic knowledge of the different options that are available and understand the basic tax benefits of giving – such as the gifting of securities versus cash through a holding company, for example, explains Ryan.

Advisors should plan to review the charitable plan on a regular basis to ensure that clients’ giving goals, target donation amounts and selected gift vehicles continue to align.

The evidence is clear: for wealthy donors, having a charitable giving plan makes financial and philanthropic sense.

Advisors can help clients to make an impact on things that matter most to them through current and future gifts, while at the same time balancing financial, personal and family considerations.

05

How much should clients give to charity?

Clients, even wealthy ones, ask this question a lot, according to Marvi Ricker.

“It really is challenging to answer, due to individual circumstances. The good news is advisors are in a great position to help clients work out how much they can afford to invest in the community, to put their wealth to good use and leave a legacy they truly believe in.”

Recent research shows that people who give typically donate from 2-3% of their income to charity, says Marina Glogovac, president and CEO of CanadaHelps.org.

“Start at 1% as a minimum, and grow from there.”

- Marina Glogovac, CanadaHelps.org

“Everyone’s financial situation is different, but for people new to charitable giving, I encourage them to start at 1% of their gross income as a minimum, and grow from there,” says Glogovac. “For many, giving to charity comes from a spiritual place and many places of worship encourage members to give up to 10% of

their income.” Whatever the motivation to give, Glogovac believes we should always be thinking about whether we can do more. “If you already give and live comfortably, challenge yourself. Sometimes, the more you give, the more you realize you can afford!”

Also, Glogovac recommends that people plan their charitable giving.

“Often giving is emotional – it isn’t rooted in a logical or rational paradigm. Planning your giving strategically each year helps make sure you have the greatest impact on causes you care about most,” she says.



Jo-Anne Ryan agrees the best way to approach the question of “how much to give?” is to create a plan.

“With our clients we develop a comprehensive financial plan, and we project where they are going to be in five years,” says Ryan. “The clients often begin to see that they will have more money than they can spend in their lifetime. This opens up the perfect opportunity to discuss a giving target and how it fits into the overall plan.”

“How much to give isn’t something people talk about or think about every day, so it can be really useful to have a guideline to help with the decision.”

– John Hallward, The GIV3 Foundation

“On GIV3.ca there is a donation calculator, which is based on a survey of a thousand Canadian adults, asking them what they feel is fair and reasonable to give,” says Hallward. “The calculator helps to give a third-party perspective. Canadians generally feel that wealthier people should give a slightly higher level (above 3% of gross income), while for those with lower incomes, or who are unemployed or retired, the suggested level is lower (closer to 1%). Of course, for wealthier individuals there are more complex considerations such as overall net worth and how much they and their heirs will need to be comfortable.”

Hallward says that a big challenge is the lack of any clear social norm as to how much to donate. People are more willing to do their share when they are aware of what their peers are giving.

“It’s human nature to want to pull an equal load with others,” says Hallward. “If you knew most people in your community were donating 3% of their income, would that help you? A lot of people would say yes.”

Financial advisors are working with the top echelons of people with wealth in Canada, the prime donors. This is a great opportunity to talk about charitable giving and set a target, he adds.

But for some advisors, **there is a fear that money donated is money lost**; if they help their clients to give away money there will be fewer assets to manage. Not true - the research proves that to be only part of the story, explains Hallward.

“If you talk to your clients about their values and charitable giving, the research says you actually build a stronger relationship. That can lead your client to recommend you to family, friends and colleagues.”

And that, says Hallward, is good for business and only strengthens the client relationship.

06

Involving the family in charitable planning

More and more families are looking at philanthropy as a shared experience and a way to give back to community, according to Hilary Pearson.



"Families want to learn and give together. They look to their trusted family advisors for expertise around philanthropy as well as around their investments and estates," says Pearson. "Whether through donor-advised funds or a family foundation, often the family will meet and decide together where and how they want to put their money to work."

Many wealthy individuals want to involve their children in the act of giving – so the conversation is really about values and making a difference, says John Hallward.

"Don't just talk to them about tax savings – frankly that misses the boat. It's about having an impact and giving back as a family; and that's what we need financial advisors to appreciate," adds Hallward.

Marvi Ricker agrees that talking to family members is something advisors should feel comfortable suggesting, and it's a good idea to include this step when developing client plans.

"Many of the families that I work with are creating private foundations," says Ricker.

"I talk to all family members individually to get their input into the mission statement for the foundation, and get them involved in developing a strategy for giving."

A recent trend among wealthy clients is what has been called the "Bill Gates and Warren Buffett Giving Effect" in which individuals are choosing not to leave everything to their children, but instead preferring that the majority of the estate go to doing good work in the community, and much of it while they are still alive.

"Many donors choose to continue supporting their favourite charities through charitable bequests in their will," says Norma Cameron. "I always encourage them to discuss their plans with their advisors and family members – to ensure their gifts are structured in the best way possible to protect them from failing."

It's far better to follow a "no surprises" approach and let family members know how monies will be distributed – including charitable giving. Why? Because not doing so may result in the gift failing, through wills being contested, and the survivors may decide to "blame the advisor" and take their business elsewhere.

In fact, recent research strongly supports the need for advisors to involve both husbands and wives in all financial planning discussions. Given that women generally outlive men, one sobering statistic shows that in the first year following the death of the husband, 80% of Canadian women switch advisors.

"The research tells us that if the relationship hasn't been built with the couple during both their lifetimes, the wife may seek out an advisor that provides a more holistic, family-oriented approach to philanthropy," says Cameron.

Having that holistic approach with the client and the family helps to foster that message of giving and caring for others – something that can be passed along down through the generations.

This is good for the family, good for the community and good for business.



07

Identifying legitimate charitable organizations and their impact

Your clients want to give, but they may need some guidance on choosing their charities – more importantly, they may be looking to you to be that guide. Are you ready for that challenge?

It is a long-term process, but it begins with some research, according to Marvi Ricker. “Once we’ve decided what it is they want to fund – let’s say it is youth at risk – we then start to look at organizations that are working on these issues,” says Ricker. “You have to get to know the organizations – start to learn about them by making site visits, read about them, talk to others in the sector who are doing good work.”

While the advisor should be ready to provide suggestions to the client, the client should be encouraged to do some research of his or her own. Imagine Canada publishes a Guide to Giving that offers helpful tips and resources for donors looking to get better informed.



“Clients need to do their due diligence. There are lots of websites where you can get information on charities,” says Jo-Anne Ryan.

“I really like Charityfocus.ca from Imagine Canada, because it’s the same financial information as the Canada Revenue site, but it is user-friendly and easy to understand. You can research any of the 86,000 Canadian registered charities in one place.”

Marina Glogovac agrees that online research is a good place to start; but that should just be the first step.

“Firstly, check to see if they are a registered charity and how their financial numbers look. After that there is a lot more you can do to decide if an organization is worth your time and money,” says Glogovac. “Try to see the charity in action. Visit or volunteer there, ask questions about their programs, is their work having an impact. People often give impulsively. Research shows that relatively few people do the leg work.”

A common mistake that even sophisticated clients make is favouring charities with the lowest ratios spent on administration, says Ryan.

“Many donors want to put dollars toward program delivery and not into overhead, staff or technology. Charities can’t magically deliver programs with 0% overhead. We need them to be well-run, which means hiring good people – and you have to pay them.”

According to Bruce MacDonald, president and CEO of Imagine Canada, the most important thing to look at is the impact the charity has in its community. And fortunately, charities are getting better at demonstrating how they make a difference.

“We encourage Canadians to use a lens that is much broader than simply ‘how much does a charity spend on administration – overhead – fundraising?’” says MacDonald. “Folks should consider that real impact requires real investment. And while questions about financial performance are important, they should be packaged along with questions around what good does the organization do, and how effective are the programs that they are offering.”



Charities realize that they need to demonstrate the good work that they are doing to encourage donors to commit dollars, says MacDonald. And that information can be readily found by clients and advisors looking to help steer their clients in the right direction.

“Clients are interested in seeing their dollars have the highest impact,” he reiterates.



08

Why your client might want to donate his or her best performing stock to charity

It is a very tax-friendly time to give to charity in Canada. Understanding the rules for donating assets can make a big difference when it comes to capital gains tax. More importantly, it opens up options for clients as to what form those donations can take.

To encourage individual charitable giving, there is a tax incentive for donations of publicly traded securities, says Marvi Ricker.

“Oddly enough, not everyone knows to use shares instead of cash when donating,” says Ricker.

“The capital gains tax is eliminated, resulting in substantial savings. If the client still wants to own that favourite stock, you can buy it back right away using cash. That way you increase the cost base to the new market value and eliminate the capital gain.”

This advantage applies to large or small donations of securities, though most donors only consider it for larger gifts that involve a capital gain of at least \$1,000, as the tax benefits become more attractive.

Clients should be told right off the bat that gifts of certain types of appreciated assets get special tax treatment, says Margaret Mason, a partner with Bull, Housser and Tupper.

“If clients donate shares in publicly traded companies, the most frequent gift in this realm, it’s wise to choose shares that have a pregnant capital gain,” she says. “This is because the capital gain is exempt from taxation, which is a sort of “double-dip.”

The “double-dip” is that donors don’t have to pay tax on the appreciation in the securities, and they get a tax credit for the fair market value. The example below illustrates how clients can benefit through donation of securities compared to donating the cash from the sale of a security. The client not only saves \$18,400 in capital gains tax, but also gets a charitable tax credit of \$46,000.

Benefits of donating appreciated securities to charity	Sell securities - donate cash	Donate securities
Original cost of securities	\$20,000	\$20,000
Current market value of securities	\$100,000	\$100,000
Capital gain	\$80,000	\$80,000
Tax on capital gain (assumes 46% marginal tax rate on 50% of capital gain)	\$18,400	-
Donation amount to charity	\$100,000	\$100,000
Charitable tax credit (assumes 46%)	\$46,000	\$46,000
Net after tax cost of \$100,000 donation	\$72,400	\$54,000



In 2015 the federal budget included even more extensive tax incentives for individual charitable giving. Specifically, the existing capital gains tax exemption for donations of publicly-listed securities is extended to include donations from the sale of private shares or real estate beginning in 2017.

According to Brad Offman, founder and principal at Spire Philanthropy, it is critical that clients are aware of these new rules so they can donate in the most tax-efficient way possible. Whether supporting medical research, their alma mater, or giving a parcel of land to a local non-profit the tax benefits are substantial.

“You need to be aware of the benefits as well as the rules of donating different types of assets, and we recommend working with a professional

advisor,” says Offman. “The list of options open to donors is expanding. You can write a cheque, donate securities, real estate or private shares – taking advantage of the new rules in this year’s budget which come into effect in 2017.”

A lot of people aren’t aware of all the opportunities. Learning about these types of donations is going to benefit both the donors and the charities they want to support, says Offman.

This is welcome news to Canada’s charitable sector, at a time when the incidence of tax filers claiming a charitable tax credit continues its multi-year decline.



09

Donating real estate and private company shares to charity

As another tax year comes to a close, has your client indicated he or she is ready to make a big donation to charity? If so, that could be a signal to you, the advisor that there may be a lot more wealth tied up in private shares and real estate that can be accessed.



"If the donor can afford to cut a cheque for \$10,000, he or she has probably got a significant portfolio of stocks and other assets that have capital gains in them," says Doug Puffer. "And when you ask them, they almost always say, 'Yeah, I do!'"

Despite looming changes, currently there is no capital gains exemption for gifts of real estate or private company shares. But these donations are eligible for tax credits. As a charitable gift planner, Puffer knows the various advantages of gifting public shares, private shares or other property, and how to transact those. And, he says, many affluent donors are very open to the discussion.

"I would then say, 'Instead of paying with a cheque, you should think about donating appreciated assets. The cost of donating is much less that way.' The response is often, 'Really? How do I do that?' It's a conversation starter."

When tax problems are on the horizon, the gifting of real estate can be a financially sound solution.

"If your client has been hanging on to commercial real estate in Vancouver or Toronto for 15 years, there's a tax bill that is just waiting to explode. But I don't think it's common thinking yet among most financial advisors to advise their clients to look at real estate as a donation and tax strategy," says Puffer.

“Property can be a really valuable gift,” agrees Malcolm Berry. “It might be the best way to dispose of a big holding to reduce the tax implications. This is a non-traditional asset that some charitable organizations may have trouble receiving. We have a fairly sophisticated team here at SickKids, so we don’t have any trouble organizing that.”

The conversation surrounding business succession planning is also a perfect time to discuss charitable giving, and the tax savings that can be realized.

Janice Loomer Margolis, a philanthropy advisor at JLM Philanthropy, points out that 70% of family businesses fail to make a successful transition to the next generation.

“Without the next generation to take over, lots of private businesses are being sold outside the family. This will trigger big capital gains taxes and also open up opportunities for a conversation about philanthropy and ways to share family values beyond the business. A portion of the shares can be donated to charity to help offset the taxes, but it takes top-notch accountants and other advisors to help realize the savings as well as make a plan to convert the assets into cash that will benefit the charity. Most business owners will only look at this

option for large gifts - \$50,000 and up - because the transaction needs to be meticulously planned and managed. Additionally, without the business structure holding the family together, philanthropy is a wonderful way for the family to engage in a rewarding experience together.”

New CRA measures in 2017

Regarding possible changes to tax law, the 2015 federal budget extends the existing capital gains tax exemption for donations of securities to include donations from the sale of private shares or real estate. This change, scheduled to begin in 2017, may or may not happen under the new Liberal government.

“The new measures will eliminate the capital gain if you donate the cash proceeds of the sales within 30 days,” says Margaret Mason.

“But there are many unanswered questions, particularly after the October Liberal victory. Will this new exemption proceed? If it does, what are the technical considerations and how will it work exactly?”

Who better to keep clients informed than their financial advisors?

10

Private foundations versus donor-advised funds

Since private foundations and donor-advised funds basically do the same thing it shouldn't make that much of a difference which one your client chooses, right?

Wrong.

While private foundations used to be the norm for wealthy individuals wanting to structure a legacy of giving, the arrival of donor-advised funds has offered a popular alternative in recent years, according to Margaret Mason.

“When a client asks to set up a private foundation, I discuss the alternative without all the infrastructure and administration. You can go to a community foundation or any of the banks and they all have donor-advised funds established. The minimums are much lower – typically you would need millions to make a foundation worthwhile. Private foundations can work well when there is some sort of intergenerational idea or mission to keep it on track, but they do take some time to manage.”

Private foundations have been around for a long time and this is the most structured way of giving, says Jo-Anne Ryan.

“For a private foundation you need a lawyer to set up a trust, which requires a trustee, or a non-share capital corporation, requiring a minimum of three unpaid board members,” she explains. “You apply to CRA for a registration number, with the fiduciary responsibility to ensure that the funds are managed prudently and that you are complying with CRA’s rules with regard to charities.”

“As an alternative to setting up a foundation you can have a donor-advised fund for as little as \$10,000. You open an account, name it as you would name a private foundation, donate to it and the money grows tax exempt, as you pick and choose the charities that receive money every year,” adds Ryan.

Donor-advised funds and private foundations can each play an important and unique role in philanthropic giving, helping Canadians to have an impact and put their charitable dollars to work, according to Hilary Pearson.

“The great advantage of a private foundation is that you have full scope and control. You can bring everyone together around the table as often as you want to develop a real sense of shared purpose and foster shared family engagement in your own giving vehicle and framework,” says Pearson.



Marvi Ricker believes that you need to understand the advantages and disadvantages of each approach and consider the specific circumstances before making a decision. “It is important to know that when you are going in to a donor-advised fund, you don’t have complete freedom and flexibility for how

much you are going to grant, because there are limitations created by the public foundation that is holding those funds,” says Ricker. “With a private foundation, you have freedom to make grants as you wish within the CRA rules – but you also have the responsibility of administering that foundation.”

According to Pearson, advising clients on the differences between a private foundation and a donor-advised fund provides the ideal opportunity to enter into the philanthropic conversation.

And that dialogue will ultimately be a rewarding experience for both you and your client.



We would like to acknowledge and thank the following contributors:

John Hallward

Founder and chairman,
The GIV3 Foundation

Ruth MacKenzie

Executive director, Canadian
Association of Gift Planners

Hilary Pearson

President, Philanthropic
Foundations Canada

Malcolm Burrows

Head philanthropic advisory services,
Scotia Private Client Group

Malcolm Berry

Vice president major gifts,
SickKids Foundation

Marvi Ricker

Vice president and managing
director philanthropic services,
BMO Private Banking

Jo-Anne Ryan

Vice president philanthropic
advisory services, TD Wealth

Doug Puffer

Director of planned giving,
Simon Fraser University

Norma Cameron

Principal and owner,
The Narrative Company

Marina Glogovac

President and CEO,
CanadaHelps

Bruce MacDonald

President and CEO,
Imagine Canada

Margaret Mason

Partner, Bull, Housser and Tupper

Brad Offman

Founder and principal,
Spire Philanthropy

Janice Loomer Margolis

Philanthropy advisor,
JLM Philanthropy

Executive Summary

Canadian Survey of Financial Advisors & High Net Worth Canadians

*The full study is available by contacting
The GIV3 Foundation: contact@GIV3.ca or
CAGP: info@cagp-acpdp.org.*

Background

In late 2013, US Trust and The Philanthropic Initiative (TPI) published American research, which revealed:

- Many High Net Worth Individuals (HNWIs) would appreciate and value the advice of their financial advisor (FA) in helping them reach their philanthropic aspirations. Such philanthropic conversations are seldom taking place.
- When the philanthropic conversations do take place, FAs most often focus on the technical and tax aspects of giving, while HNWIs prefer to discuss their values and passions regarding giving.
- Contrary to the FAs' perceptions, HNWIs would like to have a philanthropic conversation in the beginning stages of their relationship with their advisors.
- Such philanthropic discussions would likely improve the client-advisor relationship, and strengthen future business opportunities for professionals.

The situation in Canada is rather similar. A unique Canadian study was conducted in September 2014 by Ipsos Canada, on behalf of The GIV3 Foundation, BMO Private Banking, the Canadian Association of Gift Planners (CAGP) and Philanthropic Foundations of Canada (PFC). The objectives of the study were to assess several key parameters in greater depth:

- Incidence and nature of philanthropic discussions between FAs and their clients
- Barriers to having such conversations
- Benefits of philanthropic discussions to FAs and their HNWI clients
- Knowledge about philanthropy and interest in learning more
- HNWI giving, motivations and barriers to giving

Study methodology

Survey and sample: Two quantitative online surveys were conducted among two distinct groups:

1. Financial Advisors (FAs): A random sample of 258 financial advisors recruited from across the country, in partnership with a National membership association. FAs were screened to include only those who work with HNW clients with investable assets greater than \$1 million.

Note, despite best efforts, we were unable to recruit a significant sample of FAs serving the province of Quebec. It is not known if this is simply a reflection of the reality or perhaps if the reach of the national association is lower in Quebec than the actual incidence of FAs.

2. High Net Worth Individuals (HNWIs): A random sample of 178 HNWIs recruited by Ipsos from a pan-Canadian online panel.

Respondents were screened to include only those with investable assets greater than \$1 million.

Weighting: The HNWI sample was weighted to match the expected representation of wealthy individuals in the overall Canadian population. The FA sample was not weighted as there is no known expected representation for FAs.

Executive Summary – The Big Picture

The vast majority of Canadian High Net Worth Individuals (HNWIs) are already philanthropic, though there is room for improvement in the levels of giving. Financial advisors (FAs) are well positioned to initiate deep and meaningful discussions with their HNWI clients on the topic of charitable giving. However the incidence of deep and meaningful conversations is low. The most appropriate approach seems to be discussing the causes HNWI Canadians are passionate about and care to support to make a difference. FAs should feel comfortable raising the topic earlier than they think, and they will likely improve their relationship and business if they bring a balanced discussion with a focus on the interests and concerns of HNWIs (making an impact, expressing their values, wise use of donations, etc.).

HNWI Giving, Motivations & Barriers to Giving

- Virtually all HNWIs are donating to charity. However there is an opportunity to increase the amounts donated.
- HNWI donations are motivated by a desire to impact the community, to give back and passion for a cause. Contrary to FAs' perceptions, tax reduction is not an important motivation for charitable giving.
- The biggest barriers to charitable giving are fear that gifts will not be used wisely and fear of an increase in donation requests. Very few HNWIs say they don't have enough money for themselves or their heirs, while some FAs believe that HNWIs hesitate to give because they lack money for their heirs or themselves.

Discussions On Philanthropy Between HNWIs and FAs

- HNWIs who have philanthropic conversations with their FA find them useful and highly satisfying, and many agree it helps to strengthen their relationship with their FA, but these philanthropic conversations are seldom taking place.
- Financial Advisors (FAs) feel it is important and appropriate to raise the discussion of philanthropy with their HNWI clients and most report that they are having these conversations with many of their clients.

The apparent disconnect between HNWI and FA perceptions may be related to the depth of these philanthropic conversations; the majority of HNWIs say that their philanthropic conversations were basic and light in nature (not deep, meaningful discussions).

- There are differences in perspective about the ideal themes of philanthropic discussions: HNWIs are more keen to discuss their giving values (making a difference, giving back, personal passions) whereas FAs tend to emphasize more technical issues, such as tax reduction and tactical tax planning. HNWIs have a good level of understanding about charitable giving. This implies that the discussions should be balanced, with a focus on how to plan and include giving as a reflection of the HNWIs' values. To HNWIs philanthropy is about much more than just tax reduction!
- HNWIs feel it is relevant to have philanthropic discussions with a FA earlier in the relationship than what FAs tell us. The majority of HNWIs are comfortable discussing philanthropy early in the relationship.

Benefits of Philanthropic Discussions

- FAs strongly believe that discussing philanthropy with HNW clients is good for business and helps strengthen relationships. This matches the opinions of HNWIs when they have had such conversations, who also agree that it strengthens their relationships.

- FAs are highly focused on client tax reduction as an attractive theme for philanthropic discussions, however they also recognize that a more comprehensive, holistic approach and better client insights is good for business. FAs would likely benefit most by exploring clients' philanthropic interests and desires to impact their communities, consistent with HNWI giving motivations.

Knowledge About Philanthropy & Learning More

- HNWIs are knowledgeable about philanthropy, though they do say they can benefit from more information.
- FAs claim a lower level of knowledge than HNWIs, and are most informed about the benefits of donating equities. There is certainly an opportunity for more educational training to increase advisors' technical knowledge and comfort level.
- Most FAs state an interest in getting more advice, tips and support in discussing philanthropic issues with their HNW clients. There would likely be great benefit from training on how to have a meaningful conversation about philanthropic values and passions.

The Philanthropic Conversation Research Partners



Backed by the stability and resources of BMO Financial Group, professionals at BMO Wealth Management are responsible for the successful management of wealth by providing expert advice and highly personalized services in banking, investment management, wealth planning, estate, trust, succession planning, business transition and philanthropic services - all in a coordinated approach.



The GIV3 Foundation operates a public awareness campaign with a mission to encourage more Canadians to be more giving through philanthropy, volunteering and inspiring others. GIV3 managed and executed the Philanthropic Conversation research study in partnership with CAGP, PFC and BMO. For any questions about the research please contact contact@giv3.ca.



Canadian Association of Gift Planners (CAGP) is a national nonprofit organization whose mission is to champion the growth and development of strategic charitable gift planning in Canada. We are the only professional association that enables fundraisers and professional advisors to collaborate and network. Our 1,200 members are engaged through 23 local Chapters and include lawyers, estate and financial planners, accountants, tax specialists, fundraisers and senior charitable leaders.



Philanthropic Foundations Canada (PFC) is a national member association of grant-making foundations, charitable organizations and corporate giving programs. Established in 1999, PFC numbers over 125 members. PFC promotes the growth and development of effective and responsible foundations and organized philanthropy in Canada through provision of membership services, resources and advocacy.

