Leith Wheeler INVESTMENT COUNSEL LTD. Well Into the Future

WINTER 2013

Planning Matters

Amplifying Your Annual Philanthropic Investment

The emotional reasons for making a gift may originate from personal experience to deep passion for a cause or simply that a donor feels that their heirs will receive a more than sufficient inheritance. Regardless of the rationale for giving, donors are generally interested in ensuring that their gift is structured in a manner that provides the greatest possible impact for the investment made while benefiting from the maximum amount of available income tax preferences.

For the majority of charitable Canadians, cash is the typical gift of choice, especially when a gift is of a smaller size. There are, however, other ways that gifts can be made that create greater tax benefits and more overall value for the donor (and charity). In situations where ***annual gifts*** are being considered, a donor should review the best way to structure their donation with a qualified tax professional in order to ensure they maximize the tax benefits of their giving to the extent possible.

Table I provides a simple comparison of the positive impact a gift of public securities will have when compared to cash.

Annual Gift Program - $50,000 Per Year

Donor: 70 year old Male and 70 year old Female (both Non-Smokers)

	Sell Public Shares and Donate Cash	Donate Public Shares
Value of Public Securities	$ 50,000	$ 50,000
Original Purchase Price	20,000	20,000
Capital Gain	30,000	30,000
Taxable Gain (50% Inclusion)	15,000	-
Tax on Capital Gain @ 39% (Alberta)	*$ 5,850*	*$ -*
Available to Donate (value of securities - tax paid)	*$ 44,150*	*$ 50,000*
Tax Savings from Donation (50% Alberta)	22,075	25,000
Annual After-Tax Cost of Gift (Initial Value Less Tax Savings)	$ 27,925	$ 25,000

Evaluating the Legacy 15 Years Later (Age 85)

	Sell Public Shares and Donate Cash	Donate Public Shares	Gift Shares and Insure
Aggregate Gifts to Charity*	$ 662,250	$ 750,000	*$ 2,135,000*
Aggregate After-Tax Cost of Gifts	$ 418,875	$ 375,000	$ 375,000

** If, for example, the donors are healthy, non-smoking, 70 year olds (male and female), a premium gift of $50,000 per annum would be required to pay the annual minimum cost of insurance for a new joint last insurance policy with a $2,135,000 death benefit. Each situation will differ and require a personalized approach to gift design. Example assumes public shares gifted to charity and proceeds of sale used by the charity to pay the annual insurance premium. The actual Insurance premium may differ, please consult with your advisor.*

This is for illustrative purposes only. Professional tax advice should be sought before completing a charitable gift.

Gifts of Publicly Traded Securities

During the last decade, favourable tax legislation was enacted relating to the gifting of publicly traded securities. The results of these changes provide that no income tax will be payable on a capital gain realized upon the disposition of the security that has been gifted. In addition, the donor will receive a tax receipt equal to the value of the securities gifted.

As ***Table I*** demonstrates, as a result of the preferential income tax treatment afforded to unrealized capital gains, gifts of publicly traded securities will be a more cost effective method of giving than a direct gift of cash. The net impact is larger gifts at a lower overall cost.

Gift "Amplification" Via Life Insurance

In addition to gifts of cash or publicly traded stock, prospective donors might consider gifts of life insurance in certain circumstances. There are a variety of ways for a donor to make use of life insurance in the context of charitable giving, including some advanced applications that can be designed in a manner that provides significant gifts at minimal or no eventual cost to a donor. In these situations, meaningful income tax credits are created that subsidize the investment required to create the eventual gift (proceeds of life insurance) that is directed to the charity.

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In our situation, we will assume the donor will simply arrange a life insurance policy based on their life. Subsequent to arranging the life insurance policy:

- A charity will be named the owner and beneficiary of the policy;
- The annual premium will be paid by the charity after receipt of public securities from the donor; and
- An income tax receipt will be issued to the donor equal to the value of the securities donated.

The charity will ultimately receive a gift equal to proceeds of life insurance paid at the time of the donor's passing. From a donor perspective, the value of the tax credits generated and the ultimate cost of the donation will depend on the actual mortality of the lives insured.

Table I illustrates the potential results of including life insurance in the donor's gifting program. Assuming good health, our prospective donors, a husband and wife both aged 70, could arrange a $2.135 Million joint last to die, life insurance policy. The premium required to maintain the policy would be $50,000 per annum (equal to the value of the annual securities gift). As demonstrated in ***Table I***, if the last surviving spouse passed away at 85, the inclusion of life insurance in the gifting strategy would have a significant positive impact on the value ultimately received by the charity. The impact would be even greater if the last survivor passed away before age 85 since the $2.135 Million death benefit would come sooner and at a lower overall cost. Of course, if the last survivor were to pass away after age 85, the aggregate cost of the $2.135 Million legacy gift would also increase.

A proper gifting program requires careful planning. It might be that a donor has significant annual income and may be able to better utilize a tax credit on a current basis. Alternatively, a donor that has a significant accrued tax liability that would be triggered at the time of death, might prefer to defer the tax credit until their passing. Ultimately, in order to structure an effective gift for you and your charitable cause, proper consideration of your overall philanthropic objectives in conjunction with a keen understanding of your personal financial and income tax situation is required. Your tax, estate planning and financial advisors can provide you with the insight and direction essential to successfully implementing your plan.

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