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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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## Formalized donation options

**Beyond a direct gift to a charity, there are many other ways you can support the causes that are important to you. This article discusses some of the formalized options of charitable giving, including private foundations, donor advised funds and endowment funds.**

### Exploring your options

Typically, when you make a gift to a charity, you are not involved with how the charity will use the funds. If you're interested in a more active approach with your giving or you'd like some or all of your family to participate in creating a charitable legacy, there are various charitable giving options you can consider, including:

- Setting up a private foundation;
- Contributing to a donor advised fund; or
- Setting up an endowment fund.

### Private foundations

A private foundation is usually funded by a single source or a small group. The foundation awards grants to support specific work by others or makes contributions to other registered charities. Private foundations can be established as trusts or corporations and have to act exclusively for charitable purposes. Income and capital cannot

be used to benefit any members, shareholders or governing officials. Often, the money contributed is invested and portions of income and capital may be donated annually.

Private foundations provide significant flexibility in charitable giving. Generally, they are funded with a large initial contribution. The donor will get a donation tax receipt for the fair market value of the amount contributed to the private foundation. Subsequent gifts made by the foundation to other registered charities don't generate donation tax receipts. With the ability to donate a large amount immediately, you can plan your tax credits and potentially minimize tax while creating a lasting legacy. For example, you may want to dispose of property with substantial capital gains; as part of your planning for managing the capital gains tax, you may want to make a large donation to reduce the amount of taxes you will pay on the capital gains.



Unlike other forms of giving, a private foundation may also provide you with the ability to control the use of the funds in the foundation. The donation is not tied to a specific charity. Instead, the foundation's directors or trustees can award grants case by case, usually within guidelines set by the founders.

The creation and operation of a private foundation is a highly specialized legal and estate planning area. It should be considered only by individuals who are planning to commit a significant amount to charitable activities. In addition to the annual CRA filing, a private foundation may be subject to CRA audits, need to file annual financial statements and be subject to an annual disbursement quota.

If you're planning for a smaller gift or would not like to directly manage a private foundation, there are also a number of non-political community foundations in Canada you can consider. They use money from many donors to benefit a particular city or region. Depending on the value, the gift may go into a general fund or be administered separately as directed by the donor. There are also special-purpose foundations. They invest money collected from the public and use the income to fund grants.

### Donor advised fund

An alternative to a private foundation is a donor advised fund. A donor advised fund allows you to create an enduring charitable legacy but without the time and expense required for a private foundation. With a donor advised fund, you can donate cash or other assets to a fund administered by a registered public foundation. The gift is irrevocable. You receive a donation tax receipt equal to the value of the assets donated.

You can recommend how contributions are managed and which charities receive grants, subject to the public foundation's final approval. A donor advised fund may be the right choice for you if you want to establish an enduring legacy and you prefer convenience over control. The minimum initial investment varies depending on the fund.

### Endowment funds

An endowment fund is held by a foundation or charity. They are created by donors when the donors require the charity to maintain the principal amount that was originally donated. The charity will typically invest the donation and only use the income earned to fund ongoing projects.

Many institutions operate endowment funds that provide scholarships, fellowships, bursaries and research grants. In some cases, wealthy individuals or families provide very large donations to fund, for example, a professorship. You will need to work with the intended charity to set up an endowment fund.

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### Conclusion

Giving is a personal decision, and you and your family may have different objectives with respect to how, the amount and when you wish to give. The alternatives discussed in this article may allow for structured philanthropic giving, which can help you create a charitable family legacy.

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