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Corporate Philanthropy

Giving back to the community is an important objective for many business owners. Our private clients have used both their time as well as their money to graciously provide support for years.

Charitable giving has many benefits to humanity and also improves the donors own quality of life¹. Many people have felt a greater feeling of contentment, joy and community in direct relation to their generosity. In addition, the conversation around gifting of time and money tends to enhance a family's bond and teaches many good attributes along the way.

Many times using your corporation to create a giving strategy provides additional tax benefits. By strategically planning your donations with your wealth professional along with your trusted Accountant, you can stretch your dollars further and create a larger social benefit.

Let's dig in to the mechanics.

Tax Benefits of Charitable Giving

Corporate Philanthropy in Canada is very much encouraged and promoted by the various tax incentives available.

Three tax benefits in particular come to mind:

- Deductibility - donations to registered charities can be directly deducted from your company's taxable income
 - Up to 75% of your net corporate income annually can be offset through donations
 - You can carry forward any unused donations for 5 years to offset future income
- Eliminate Capital Gains – with appreciated securities that are directly donated to a registered charity
 - The company does not have to pay any capital gains taxes on charitable gifts of publicly traded securities
- Create Tax Free Dividends – when securities are donated directly
 - In addition to eliminating the capital gains taxes, business owners who donate through their corporation are able to add the full capital gain to their Capital Dividend Account (CDA).
 - This creates the ability for the business owner to declare a capital dividend, which is a tax free withdrawal from their corporation into their personal hands.

Strategically creating a Family Foundation

Family Foundations are a tool that can be used to further enhance your donation and again stretch your dollars to increase your societal impact. Many clients view a family foundation as a type of charitable tax free savings account as once the foundation is created, the portfolio is no longer subject to income taxes.

There are two main ways to establish a family foundation:

- 1) Register a Private Family Foundation
- 2) Establish a Donor-Advised Family foundation

The benefits of each structure are many and in both cases your individual circumstances will determine which vehicle is best for you and your family. Having said this, below are some key benefits that you will enjoy in both types.

Key Benefits of Family Foundations (both types):

- Current year tax deduction with the ability to give over time (tax receipt received in the year of set-up)
- Leave a lasting legacy without concern for probate taxes or estate settlement
- Enhance your family through shared family values and learning together
 - Foundations allow family members to participate in wealth by witnessing how the foundation manages its investments, deliberates over its grants and the impact it has on the community
 - This level of hands-on learning is hard to match and can significantly improve the understanding and appreciation for the power and responsibility of wealth
- Finally, it is an effective manner of converting cash donations into more tax advantageous donations of appreciated securities without the hassle of obtaining the underlying charity's brokerage account information

Advantageously using Life Insurance Policies

Life insurance is typically thought of as a means to support loved ones after your passing, however it is also a very effective tool that many of our business owners use to again enhance their generosity by stretching their dollars further.

The nuances to these strategies are many, however so are the benefits of gifting in this manner. In particular, business owners who transfer ownership to a charity directly or to a family foundation receive donation credits for the fair market value as well as the future premiums depending on whether the policy is newly purchased or an existing policy.

Life insurance is also an effective manner to transition corporate investments to your estate on a tax advantaged manner through a tax free capital dividend. This strategy may work to enhance your estate value, which would leave more funds available to gift to charity at that time.

Complexity and Consideration

All of the strategies mentioned are commonly utilized amongst our private clients, however they can be complex and typically require consultation and customization. For advice on your specific circumstances and your charitable planned giving, we suggest a team approach whereby your Wealth Advisor, your Accountant, your Private Banker and potentially your Lawyer as well as your Insurance Specialist work together to recommend the best strategic philanthropic plan for you personally.

We are here to help.

A Note of Thanks and Gratitude

As a professional in the industry, with nearly 20 years of experience which includes licensing in most capacities, I feel that I can add value to the discussion with a very particular lens. I truly hope this article has been useful to you and I am grateful that you have taken the time to read it.

Finally, I would certainly welcome any questions you may have as I am very passionate in this area and am happy to help you navigate this world. Also, if you have interest in future articles, please email me to be added to my distribution list.

Again, thank you for your consideration.
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Notes:

1 - <https://link.springer.com/article/10.1007/s10902-020-00242-8>,

Lawton, R.N., Gramatki, I., Watt, W. *et al.* Does Volunteering Make Us Happier, or Are Happier People More Likely to Volunteer? Addressing the Problem of Reverse Causality When Estimating the Wellbeing Impacts of Volunteering. *J Happiness Stud* **22**, 599–624 (2021). <https://doi.org/10.1007/s10902-020-00242-8>

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