

## THE STAN CLARK FINANCIAL TEAM'S

## PERSPECTIVES

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## Financial &amp; Estate Planning

**PRIVATE FOUNDATIONS: A MORE PERSONAL WAY OF GIVING**

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There are many ways to give. You can contribute cash, appreciated publicly listed securities or other assets. You can donate direct to charitable organizations, one time or periodically. You can also establish a donor-advised fund or a private foundation. Each way allows varying degrees of control, and each has specific characteristics. In this article, we'll focus on private foundations.

Often recommended to high-net-worth individuals, a private foundation is one of three types of charities recognized by the Canada Revenue Agency (CRA), along with charitable organizations and public foundations. Private foundations are usually funded and/or managed by a single donor or family.

A private foundation, whether established by a trust or a corporation, must be registered as a charity with CRA. An application must be submitted, accompanied by a copy of the governing document. Various information is required in the application, including: information about the trustees or directors; the foundation's purposes and activities to fulfill those purposes; and an initial proposed operating budget.

For whom are the foundations best suited? The Philanthropic Foundations of Canada issued a report in 2019 sharing the motivations of nine Canadians and their families who have chosen to establish private foundations. The report noted that, while they all are very different people, their motivations were surprisingly consistent. These included:

- an opportunity to give back to communities
- an opportunity for personal engagement
- uniting the family around a common purpose
- creating a sustainable legacy
- managing one's own assets
- getting involved in higher-risk philanthropy.

The last point caught my attention. What does *getting involved in higher-risk philanthropy* mean, exactly? Here's how the report explained it:

*"The grant-maker in a private foundation has considerable freedom to decide which grants he or she makes individually or with family or colleagues. There is one important rule. The federal government requires that all foundation grants must be made to registered charities. But there are few restrictions on the choice of recipient or on the way in which decisions are made by the grant-maker. Many foundation donors are able to spot great ideas, react quickly, and take risks on the unproven. A grant made to that particular innovative idea or approach just might contribute to the next major breakthrough in cancer research, in environmental*

*management or in job-market integration.*

*The ability to respond quickly without conditions, to make multi-year commitments and to try out new approaches is particularly attractive to many philanthropists. In many cases, long-term philanthropists are extremely motivated to make change in the world around them. This involves risk-taking. A private approach to giving allows them to do this."*

Once you have a good understanding of your personal goals, aspirations, and preferences, you can then decide on the way that best fits your circumstances. Starting a private foundation can be an appealing option, but there are a few things you may wish to consider first:

**COST:** A private foundation may cost in the approximate range of \$5,000 to \$25,000 to establish. It also has annual filing costs.

**CAPITAL:** There is no minimum requirement for capital endowments. However, a traditional guideline is around \$1 million.

**TIME INVESTMENT:** You will need to set aside time to choose a board of directors and determine, among other key decisions, how and when funds will be invested and distributed.

**PUBLICITY:** Like other registered organizations, private foundations are required to produce public reporting, such as financial information, board members, trustees and grants made. A donor-advised fund may be better for those who wish to remain anonymous.

**RISK:** With a private foundation you a greater degree of risk, as you are ultimately responsible for the maintenance, growth and distribution of funds.

**TAX AND LEGAL REGULATIONS:** A private foundation may be appealing to donors who wish to support issues or programs outside of their community, such as national or international assistance projects.

**A PRIVATE FOUNDATION COULD BE A GOOD FIT IF YOU:** wish to manage assets directly; devote time to foundation work; make decisions on grants; have closer interactions with grantees; involve family members; collaborate with others; fund new projects; and could benefit from the tax incentives.

As always, we highly recommend discussing this with your financial and legal counsel.



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