

## Careful planning can maximize the impact of giving

Most business owners recognize the importance of charitable gifting as a function of their social contribution.

For many, the gifting is reactive to requests from community organizations, religious and educational institutions and worthy causes. For the few who carefully plan their giving structures, they not only meet their objectives but also gain added tax benefits which can "supersize" the impact of their giving.

The most overlooked structural opportunity lies within the very shares of the business itself. As part of the regular tax planning of the business, owners have been encouraged by their accountants to crystallize their lifetime Small Busi-

ness Capital Gains Exemption of \$500,000. The benefit of this will be realized at the sale of the business or at death of the owner, saving capital gains tax on the crystallized value. If the owner plans to pass on the family business and is planning to live ten or more years, the present value of the benefit is systematically reduced.

If the owner gifts these high cost base shares to a foundation or a charity then there is a full tax receipt, no taxable income inclusion, and CCRA gives back 43.6 per cent of the donated value. Since there is a requirement to monetize the shares, the company will generally redeem the gifted shares using after-tax dollars. The redemption is treated as a tax-free dividend to the charity from the company, who will have paid 17 per cent tax at the lower corporate rate, or 23 per cent on investment income. Depending

upon the owner's other income, the net cash benefit in hand can be anywhere between 20 per cent and 25 per cent of the value of the donation. This may be used personally or applied to further donations and further tax refunds at 43.6 per cent, or used to fund insurance to pay the future taxes at death.

When designed properly in conjunction with a family trust, the benefits do not end here, as there is also a transfer of value to the heirs of an amount equal to the donation. This strategy creates a benefit for the charity, a growth in share value for the heirs, and puts tangible cash in hand for the donors at the time of their donation. The net result creates greater real value of these capital gains exemptions today.

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