

The Top 7 Mistakes CANADIANS MAKE When Donating To Charity



SPECIAL REPORT

1. Not understanding that your RRSP or RRIF will be your most highly taxed asset ... eventually

There is little doubt that for most Canadians it's smart financial planning to contribute to a Registered Retirement Savings Plan (RRSP) and convert it to a Registered Retirement Income Fund when you are 71. Unfortunately, when you die, and assuming you have no spouse to whom you can transfer your registered assets, your estate could be in for a massive tax bill. Why? Because all the assets in your RRSP or RRIF will be taxed as income in the year of your death. For many of us that means our friends at the Canada Revenue Agency will take almost half the value! Fortunately with some advanced planning, including philanthropy, you can reduce or even eliminate this tax liability.

What happens to your
\$500,000 RRSP or RRIF when you die?¹



¹Assumes top marginal tax bracket in Ontario

Think making a bequest is a hassle? Getting a lawyer involved is too much time and money? Well, here's a philanthropic strategy that takes about one minute to complete, costs nothing, and involves no lawyers. Using either your RRSP or RRIF you can implement **The 60 Second Bequest™** in three easy steps.

STEP ONE: Request an RRSP/RRIF Multiple Beneficiary Designation form from your plan administrator.

STEP TWO: Complete the form naming your charity or charities of choice as one or more of the beneficiaries.

STEP THREE: Return the form to your plan administrator.

Take note: not every employee of the financial institution with whom you are dealing may be familiar with a Multiple Beneficiary Designation form. Rest assured that it does exist ... just keep asking until you are dealing with someone who knows where to find one.

Please visit www.philanthropymatters.ca and click on the tab "The Resource Vault" if you wish to download a sample Multiple Beneficiary Designation form for your reference.

"The only difference between the taxman and a taxidermist is that the taxidermist leaves the skin."

- Mark Twain

Personal message from Keith Thomson

I am often asked where my passion and purpose for philanthropy originated. The truth is 20 years ago I stumbled on this by chance. I had been attending a presentation which changed my perspective and, ultimately, my life. Since then, on both a personal and professional level, I have learned a great deal about the world of philanthropy. As a financial professional who specializes in this area, all too often I see mistakes made with respect to charitable gift planning by people whose intentions are genuinely good. This Special Report has been prepared to assist you in ensuring that your giving strategy maximizes its impact and you avoid some, if not all, of what I see are The Top 7 Mistakes Canadians Make When Donating To Charity.



Keith Thomson, Certified Financial Planner®

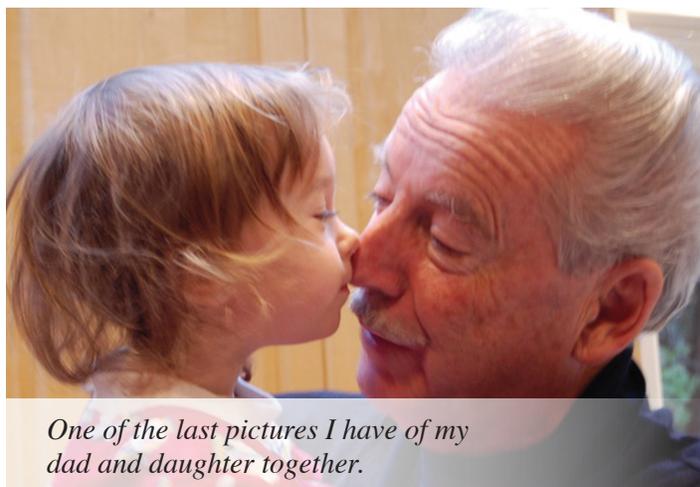
2. Not considering your legacy

What was your great grandmother's name? Having had the opportunity to present to thousands of individuals at educational presentations and workshops, this is often the final question I ask the audience.

The responses I receive to this question most effectively demonstrate the difference between traditional estate planning, with its focus primarily on the money, and a more effective approach to planning which is driven by life's most important treasures: relationships and values. Typically, almost two thirds of people cannot remember their great grandmother's name and, up until recently, neither could I! Sadly, not only did I not know my great grandmother's first name but also I knew precious little about her; whom she loved, what her values were and what brought significance to her life. As her great grandson I realized, unfortunately too late, that I will never know what had been important and meaningful to her.

In light of this realization, the next question I asked myself became even more penetrating: *How would I feel if my great grandchildren knew nothing about me ... not even my first name?* Suffice to say the question made me quite uncomfortable – at least initially. It was then that I decided my life must reflect some sort of personal legacy

that would continue to make a positive impact long after I was gone while, at the same time, communicate to future generations the values that had been most meaningful to me. Now, I'm sure that my great grandchildren will know more than just my name – they'll know who I was, whom I cared about, and what I stood for as a beacon to guide their future. Please take a moment and ask yourself the same question I posed to myself: How would I feel if my great grandchildren knew nothing of my life, not even my first name? If you do not like the answer, now is the time to take action and create your own legacy for future generations.



One of the last pictures I have of my dad and daughter together.



“You will be remembered for one of two things:
the problems you solve, or the ones you create.”

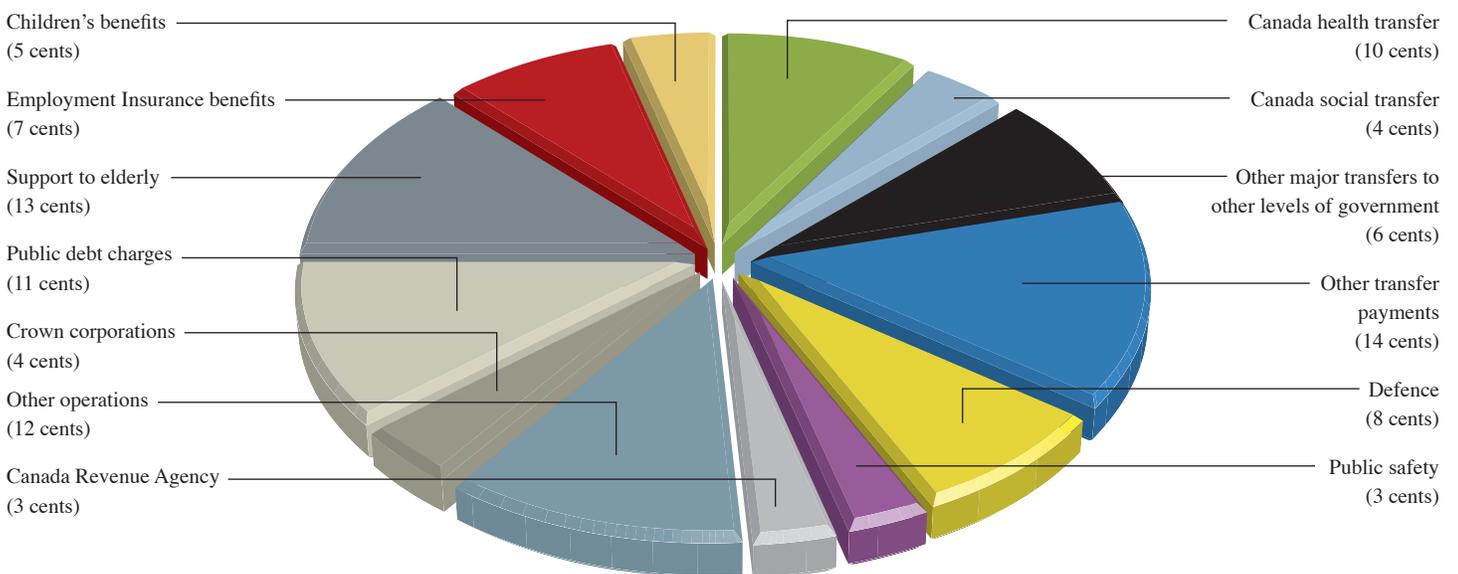
- Anonymous

This picture of my great grandmother was taken in 1959 at my parent’s wedding in Kingston, Jamaica. Only when I came across this photo did it occur to me that I had absolutely no idea what her first name was. Much later I discovered it was Marjory.

3. Not remembering that we are all involuntary philanthropists

The Webster’s Dictionary defines a philanthropist as “a benevolent supporter of human beings and human welfare” . Who is this person? Someone who gives roughly up to one half of his or her income and approximately one quarter of his or her capital gains to support the general welfare of our country. In reality the answer is ... most of us are philanthropists whether knowingly or not! In other words, as taxpayers we could all be considered “involuntary philanthropists” .

The following chart details how the government spends each dollar of tax revenue raised.



Source: Statistics Canada, (Fiscal Year Ending) March 31, 2010 to March 31, 2012

So, here's the question: Given a choice, is this how you would choose to donate your money? If the answer is “no”, then you may wish to investigate how you could redirect your involuntary philanthropy – also known as tax dollars – to voluntary philanthropy. Please do not misunderstand me: I realize that taxes are absolutely necessary and I fully appreciate the fact that if it were not for the taxes we pay, Canada certainly would not be the wonderful country it is today. However, it also goes without saying that many of us would like the ability to redirect a percentage of our involuntary social capital to the causes that are important to us. If this is how you feel, I would encourage you to investigate the numerous financial planning strategies that allow you to do just that.

The good news is that our government actually wants us to give! How do we know this is true? Because Ottawa provides incentives to Canadians when it wishes to encourage activity in certain sectors of the economy.

As an example, if the government wants to increase real estate ownership it allows a number of tax breaks for the purchase, ownership and sale of this asset class. Similarly, since 1996 the government has introduced over 20 incentives into the Income Tax Act to facilitate giving among the population. This has created what many would

argue is the most generous tax environment for charitable activity in the world today.

Some more good news is that you don't have to be rich to give. When Kenneth Thomson, 2nd Baron Thomson, Lord of Fleet, owner of a vast media empire, died in 2006 he was worth approximately \$22 billion. At that time this made him not only the richest person in Canada, but also the ninth richest in the world. A year later his son, David, was reported to be worth ... \$22 billion. Obviously some effective, high level estate planning was done to ensure the seamless transfer of assets from one generation to the next. One might conclude that Kenneth Thomson was able to accomplish this financial feat because he had access to the very best legal and monetary minds on the planet. But one would be wrong.

For decades thousands of Canadians have benefited from substantial tax savings through well thought out estate planning and philanthropic giving. The important thing to keep in mind is that you don't have to be a Kenneth Thomson to avail yourself of these opportunities. Contact your favourite charity or a financial advisor who specializes in philanthropy to determine the methods by which this can be achieved.



“Taxes are our way of feeding the goose that lays the golden eggs of freedom, democracy and enterprise. Someone says, ‘Well, the goose eats too much.’ That’s probably true. But better a fat goose than no goose at all!”

- Jim Rohn

4. Failing to understand how you can make your gift go further

At one of my presentations on effective estate planning focusing on relationships and values, I met a wonderful couple – let’s call them the Smiths – who, although already extremely philanthropically minded, wanted to do more for the organizations that were close to their hearts. A strategy that allowed them to do just that is a concept I call **The Donation Multiplier™**.

Step one involves investing in an annuity purchased through an insurance company. Quite simply, with an annuity you take a lump sum of cash to an insurance company which then guarantees you an income stream for the rest of your life. However, instead of using that guaranteed income stream yourself, you redirect it towards the purchase of a life insurance policy which names your favourite philanthropic organization as the beneficiary. This is where *The Donation Multiplier* comes into play.

In the Smiths’ case, \$25,000 was invested in an annuity that allowed them to fund an insurance policy which, when they died, would benefit their favourite cause with \$100,000, in effect multiplying or amplifying their \$25,000 gift four times! Even better, their estate would receive a charitable tax credit for \$100,000, resulting in an ultimate tax saving of approximately \$50,000. Their children were also happy, knowing they would end up with much more of their inheritance than would have been the case had their parents not been so charitable.

* Numbers have been rounded for ease of illustration.

"Efficiency is doing things right.
Effectiveness is doing the right things."
- Peter Drucker

5. Focusing on the wrong metrics

One of the most frequent questions I was asked when I was the chair of philanthropic organizations: What is your expense ratio? However, although understandable and no doubt a key question, this is nowhere near the most important question that should be asked of a charitable organization. Specifically, as a donor, shouldn’t you rather

ask: *how successful are you as a charity in accomplishing your mission?* This is not to suggest overhead expense ratios are irrelevant. Keep in mind that information is not wisdom, and confusing numbers with key metrics can lead to some very bad decisions. Is it not better to support a charity that is positively impacting society for \$0.70 on the \$1.00, than donate to an organization that charges very little in overhead but gets nothing done? Asking the right question is often more important than hearing the right answer.

PHILANTHROPIC MATH

**EFFECTIVENESS x EFFICIENCY x \$
= MISSION SUCCESS**

So what are the right questions? Unfortunately, there is no one right answer. Recently I came across a list published by *The Global Journal*, which has developed eight key metrics to look for in a great philanthropic organization. I have been in and around the charitable sector for over 20 years and I have yet to come across a better methodology.

- 1. Innovation** Creativity in programming and fresh approaches to old problems.
 - 2. Effectiveness** Delivery against objectives, with high quality external evaluations.
 - 3. Impact** Outcomes over inputs – is the organization donor driven, versus self perpetuating?
 - 4. Efficiency and value for money** Administrative overheads are reasonable, keeping in mind what Oscar Wilde once said; “a cynic is a person who knows the price of everything and the value of nothing”.
 - 5. Transparency and accountability** An extremely high level of reporting.
 - 6. Sustainability** Enduring impact and relevant problem solving.
 - 7. Strategic and financial management** Consistency of funding, including a well-developed self-evaluation.
 - 8. Peer review** How is the organization perceived by other charities, and what awards and recognition have been received?
- By applying the above eight metrics and utilizing them as a checklist you can’t help find a quality organization.

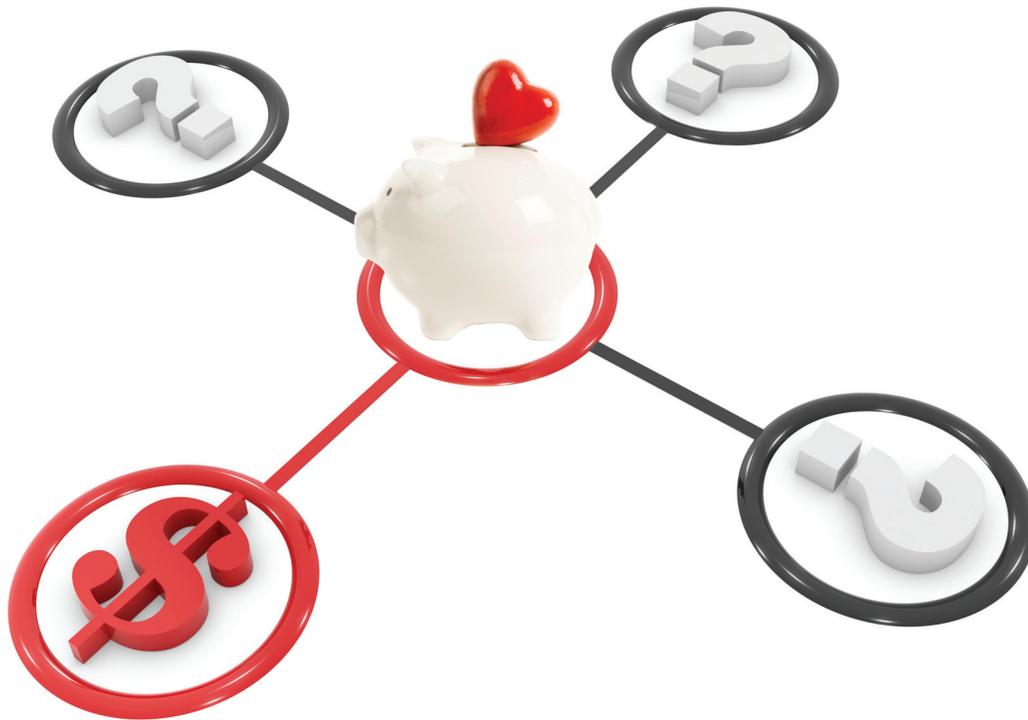
6. Making the wrong gift at the wrong time

When making a gift to charity, either today or through your estate, consideration should be given to the effectiveness and efficiency of the gift. Assuming the recipient organization is worthy of your generosity, you should then ask yourself: *How can I make my donation go further and, at the same time, maximize the tax benefits?*

The Donation Multiplier™ detailed one strategy that allows you to leverage your gift. I'd now like to focus on how you can also maximize your tax benefits. When deciding to give, it is important to review all your assets (i.e., cash, securities, insurance policies, real estate, etc.) to determine which will give you the greatest tax "bang for your buck". As an example, and assuming the highest tax bracket of 46%, if you have \$10,000 of appreciated securities with an adjusted cost base of \$4,000, your tax payable on its sale will be approximately \$1,400. As mentioned earlier

in this Special Report our government actually wants you to give. One way it encourages Canadians to do that is through elimination of the tax on appreciated securities if you choose to donate them to a registered charity. In our example this would save \$1,400 of tax. Unfortunately, in my experience, I have found that many Canadians will donate the \$10,000 in cash without taking into account the more tax advantageous alternatives open to them. True, they will also receive the same charitable tax credit, but why pay an extra \$1,400 in tax needlessly?

In summary, before you give please carefully review all your assets, or secure the services of a professional advisor with a specialization in philanthropy, to determine which of your assets to use in making a donation.



"There is a difference between knowing the path and walking the path."

- Morpheus (character from the movie "The Matrix")

7. Not seeking professional help

There's a myth that's been foisted on Canadians. Not only are we expected to excel in our chosen profession, but we're also expected to be achievers in all other aspects of our life. In today's rapidly changing environment, we're bombarded by an overload of information. Basic tasks have become more complex and our day-to-day lives are busier. Is it realistic to expect that we can transform ourselves into "part-time experts" in everything we do? Here is where the power of hiring an expert financial professional becomes clear.

When it comes to philanthropy and your legacy goals, hiring an individual who specializes in this discipline is key. In seeking such a professional to guide you, there are three benefits on which you should focus: personal peace of mind, creating a financial plan that ensures you an income stream that you can never outlive and finally building a legacy that leaves a lasting impact not only now but long after you're gone. Also, the order in which you attain these three steps is just as important.

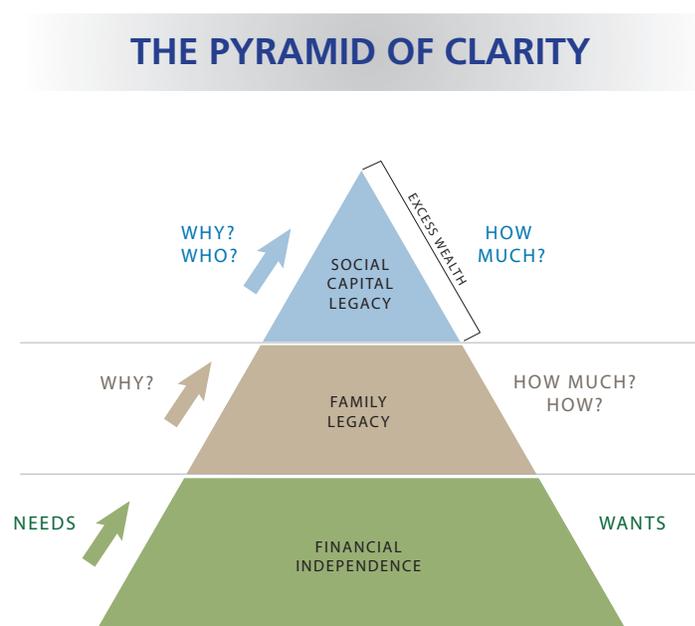
First, in order to gain personal peace of mind you need clarity around where you are today and where you want to be in the future. A focused conversation and some key questions can guide you towards your desired results. From there you can move onto strategies for financial freedom. Utilizing customized software and conservative assumptions, it's relatively easy to determine the numbers you need to live on for the rest of your life and what remains to pass on to family and friends. Ultimately, once these steps have been accomplished, you may find that you are in a position to design a philanthropic giving strategy utilizing what is often referred to as your "social

capital". I call this process the **Pyramid of Clarity**. Once you've finally reached the "peak of the pyramid", and in order to achieve true philanthropic impact, you'll need to concentrate on some personal questions such as:

What is important to you? and

Where do you want to make a difference?

Seem simple? Perhaps, but it's difficult to achieve without proper guidance and knowledge. Seek out a professional with ability and skills in the philanthropic sector to assist you in obtaining peace of mind, clarity in regard to what financial freedom looks like to you and, finally, the insights that will help you to leave a lasting impact and truly make a difference for generations to come.



"If you think an expert is expensive, try hiring an amateur."

- Red Adair

What's next?

I hope this Special Report has provided you with some food for thought with regards to charitable giving, and the mistakes to avoid. In fact, you may now be asking yourself: *What's next?* To this end, I would like to offer you a complimentary 57 minute conversation called **The Wealth with Confidence Assessment**. During our time together we'll determine which of the seven mistakes may be inhibiting your ability to make a real difference in the legacy you desire to leave your family and community. At the same time we will explore opportunities to save taxes today and, as is often possible, completely eliminate them on your estate in the future, thereby leaving more for family, friends, and charity. After completing this assessment you'll gain clarity with respect to your philanthropic objectives and fully comprehend what your next steps should be to take you from "success to significance".

If you would like to take advantage of
The Wealth with Confidence Assessment,

please contact me at

416 681-7152 or

1 877 742-3600, toll-free.

You can also visit my website,

www.philanthropymatters.ca

for further insights into
charitable giving.

About Keith Thomson



Keith Thomson is an internationally recognized financial educator, consultant, author, and Certified Financial Planner (CFP®) specializing in estate and charitable tax planning. He is a founder and Managing Director of Stonegate Private Counsel a Chartered Investment Manager (CIM®) and a Fellow of the Canadian Securities Institute

(FCST®), the latter placing him in the top five percent of all financial advisors in Canada.

Mr. Thomson recently authored the book *What Was Your Great Grandmother's Name? 50 Thoughts On How Canadian Philanthropy Can Transform You, Your Family And Your Community*. His articles have been featured in numerous publications including *The Globe and Mail* and *CAmagazine*, which has a monthly circulation of over 90,000. Chartered Accountants, lawyers, financial advisors and philanthropic professionals have benefited from his instruction through the numerous conferences and seminars

in which he has participated, including The Canadian Association of Gift Planners and The Association of Fundraising Professionals.

He introduced **The Donor Motivation Program™** into Canada and has consulted to a number of national and local charities on their gift planning initiatives. Through this program, and by utilizing the strategies revealed in Mr. Thomson's presentations, entrepreneurs, professionals and retirees have been able to save and redirect over \$10 million of their "social capital" – also known as taxes – to philanthropic organizations.

Keith currently serves on the Board of Directors of The Power Plant Contemporary Art Gallery and, for over five years, was the chair of The African Medical and Research Foundation in Canada. Keith has also acted in various leadership roles including as a past board member of The Toronto Community Foundation. For over two decades he has funded his own family foundation, supporting philanthropic initiatives both in Canada and Africa. Keith and his wife, Tanja, and their daughter Kiera, reside in the Beach neighbourhood of Toronto.

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