Jessie Bobinski, CFA, CFP
VP, Investment Counsellor,
Burgundy Asset Management

Cynthia Kett
Principal,
Stewart & Kett

A Guide to Giving:

TAX STRATEGIES & FINANCIAL PLANNING

Watch the recording here

Want to optimize your charitable contributions? In this conversation, Burgundy Investment Counsellor Jessie Bobinski was joined by Cynthia Kett from Stewart & Kett Financial Advisors to discuss the tax-related aspects of giving. With three decades of experience in financial planning, tax, and accounting, Cynthia highlights potential tax advantages and provides guidance on how to integrate charitable giving into your overall financial planning.

HIGHLIGHTS OF THE SESSION INCLUDE:

01:37: Why People Give & Tax Benefits
07:02: Deciding on How Much to Give
11:13: Benefits of Donating Appreciated Securities
12:36: Donor-Advised Funds vs. Private Foundations
17:20: Potential Changes to Alternative Minimum Tax (AMT)

Jessie Bobinski: Welcome. I am Jessie Bobinski, an Investment Counsellor located in Burgundy's Vancouver office. Joining me today is Cynthia Kett, a founding principal of Stewart & Kett Financial Advisors, an advice-only financial planning firm that cares for wealthy Canadian families across the country.

I am excited to have Cynthia join me in conversation today as she has practiced financial planning, tax, and accounting for over 30 years. Cynthia brings a wealth of knowledge and experience to our discussion.

Our focus is to review the tax advantages and a selection of tax planning considerations that may help families increase the size of their charitable giving and to think about ways in which charitable gifts can be integrated into overall financial planning.

Our desire is to take you through planning considerations with the goal of arming you with information that you may then further explore with your own tax advisor, Investment Counsellor, or other professional to determine what may be appropriate for your family.

CHAPTER 1: WHY PEOPLE GIVE & TAX BENEFITS

Jessie Bobinski: Cynthia, welcome. While our focus today is on tax and other financial considerations tied to charitable giving, most families don't necessarily base their philanthropic decisions on tax savings, do they? What are the common reasons why people give?

Cynthia Kett: There are a few reasons that come to mind. Generally, to make a difference. We want to feel that our contributions are meaningful.

Secondly, to give back. You've probably read the quote, "To whom much is given, much will be required," and a lot of people take that to heart. They consider themselves fortunate, and they feel that they ought to give back.

And then thirdly, we may feel very passionate and connected to a particular cause, and, therefore, like to dedicate a lot of our donation funds towards that. In a broad sense, charitable giving satisfies our need for spirituality and connectedness.

> "In a broad sense, charitable giving satisfies our need for spirituality and connectedness."

Jessie Bobinski: So why is planning, whether tax or general financial planning, so important for philanthropic families?

Cynthia Kett: Well, philanthropy might be just one of many important goals for a family. Even for wealthy families, there's a need to balance sometimes conflicting objectives. Other goals might include providing financial security for future generations, ensuring family harmony (sometimes that's a difficult one), or leaving a family legacy. Financial and tax planning enables a family to optimize their cash flows and tax benefits and, thus, to maximize their ability to give.

Jessie Bobinski: Excellent. For many families, charitable giving serves a greater purpose than simply seeking tax benefits. We recognize, however, that the tax benefits available to us warrant extensive planning to maximize, of course, the after-tax dollars available to donate. Cynthia, can you take us through a high-level overview of the tax benefits of donations?

Cynthia Kett: At the federal level, personal tax credits are given to individuals and trusts who donate. So, at the federal level, the first $200 of a donation is eligible for a 15% tax credit. Amounts in excess of $200 that are donated are eligible for a 29% federal tax credit, or 33% if the individual or trust is in the top marginal tax bracket. In addition to the federal tax credits, you would also receive provincial and territorial tax credits.

Other benefits might include capital gains on donations of appreciated public securities, which have a 0% inclusion rate for tax purposes versus the usual 50% (but be aware of the alternative minimum tax changes). And corporate donors can claim a deduction rather than tax credits.

There's an added benefit, though, for corporate donations of appreciated assets by a Canadian-controlled private corporation (CCPC). So let's just say that they decide that they're going to donate some appreciated public securities, and let's just say that those had a value of $100,000 and a cost of zero, just to make our math easy (See Figure 1).

So, they just donated shares worth $100,000 and would have realized a $100,000 capital gain. However, none of that capital gain will be taxed. The CCPC will get a receipt, a donation receipt, for $100,000, and that tax-free capital gain can be added to a notional tax account called a capital dividend account in its entirety.

So, that whole $100,000 can be added to the capital dividend account and at a later date, the shareholders can take out $100,000 tax-free. So, the charity got their $100,000, the CCPC got their donation receipt, and the shareholders got the added bonus of getting tax-free $100,000 later. That is a win all the way around.

Jessie Bobinski: Are there limits to annual donations?

Cynthia Kett: Yes, there are, and they're quite generous. So, for personal, or actually for any taxpayer, personal, trust, or corporate, the annual limit is 75% of net income. For individuals, it's 100% in the year of death or in the immediate preceding year. For donations of ecologically sensitive land or Canadian cultural property, the limit is 100% of those items.

However, if you've made a large donation and you can't use all the credits, or if it's not to your advantage to use them all in one year, you can carry them forward for up to five years.

Figure 1. Benefits of Donations from Corporations

	Sell Securities (no donation)	Donate Securities in-Kind
	Market Value $100,000	Donation of $100,000
Cost base	$0	$0
Total Capital Gain	$100,000	$100,000
Taxable Capital Gain	**$50,000**	**$0***
Increase in Capital Dividend Account	**$50,000**	**$100,000**

Future tax-free dividend to shareholder

**subject to CRA changes to Alternative Minimum Tax*

> “I think we usually distinguish between a one-time donation and philanthropy. The former is finite, fairly easy to plan for, even if it’s a large donation, whereas the latter tends to be long-term in nature.”

CHAPTER 2: COMMON LIFE EVENTS FOR PHILANTHROPY

Jessie Bobinski: An important starting point for philanthropic families is determining how much to give or to set aside for philanthropic activities. As a starting point, what details should families or individuals consider?

Cynthia Kett: I think we usually distinguish between a one-time donation and philanthropy. The former is finite, fairly easy to plan for, even if it’s a large donation, whereas the latter tends to be long-term in nature.

So ongoing giving needs to be factored into a family’s cash-flow requirements. Will there be annual donations, significant lump-sum contributions? If so, when? Are the contributions to be used towards a charity’s current spending needs or towards an endowment gift, which can fund the charity’s future activities as well?

Large donations relative to a family’s annual cash inflows require more strategic planning, both with regard to amount and timing. With planning, a family might find they’re able to give more during their lifetimes rather than wait until their passing.

Jessie Bobinski: Are there common life or liquidity events that may be an opportune time to consider a more sizable gift?

Cynthia Kett: Yes, there are certainly lots of opportunities for CRA (Canada Revenue Agency) to get hold of our money. So, if there are high-income or high cash-flow years, those are the ideal times to be making a sizable donation. Exercise of stock options, sales of assets with large unrealized capital gains, moving to a different tax jurisdiction (even within our country) can have an impact. The sale of a business or the passing of a taxpayer will all generate higher-than-normal taxable income for the year.

Some of the taxes payable could be offset by making concurrent planned donations to registered charities. Large inflows of cash due to lottery winnings or an inheritance can also be used towards donations of significance. Somebody always says, “Oh, if I just won a lottery, I’d do this,” and maybe one of those things might be a large donation to their favourite charity.

Jessie Bobinski: Now death is a big tax event for all of us. What are a few strategies that families can consider when estate planning?

Cynthia Kett: Well, I think first of all, you need to know, ideally, what the tax implications would be if one of the taxpayers were to pass, because sometimes those numbers can be very, very large. For instance, if somebody had large registered plans like an RSP (retirement savings plan) or a RIF (retirement income fund), or the locked-in equivalents, upon death, unless there’s a rollover to a spouse, those amounts would be fully taxable upon the death of a taxpayer.

If people know that ahead of time, they can plan accordingly. Either they know that they’re going to have that tax hit and they’re going to go, “Oh, well, we’re going to pay that.” Or, “Well, gee, is there something I can do and donate to some organization that I favour instead of giving it to CRA?”

The other thing, too, is that families who want to give, but aren't too sure whether they can afford to donate large amounts during their lifetime might consider some life insurance strategies. Life insurance can often enable or enhance a donor's ability to give, both now and in the future. Some of these strategies can be a little bit complex, so I recommend you consult with your professional advisors to learn more about them, but they can be very effective.

CHAPTER 3: DONATING APPRECIATED SECURITIES

Jessie Bobinski: Well, shifting now, let's talk about some of the more common gifts that are used as donations. Many of our clients are aware of gifting cash on a lump-sum or periodic basis throughout the year to various charities, but some may not be familiar with the benefits of donating appreciated securities, including Burgundy's pooled funds. Can you please discuss and share the benefits of donations of securities in kind vs. cash?

Cynthia Kett: Well, like any other donation, a donor who transfers appreciated public securities to a registered charity will receive a donation receipt equal to the fair market value of the securities at the time of gift. That's just as you would expect. And because the securities trade on an open market, their value is readily determinable. However, there's an added benefit to donating appreciated securities.

Normally, capital gains are 50% taxable, at least now they are. The other 50% is tax-free. When appreciated securities are donated, 0% of the capital gains will be taxable. Therefore, 100% of the gain is tax-free. There's potentially a snag with this thing called alternative minimum tax, but we'll touch on that a little bit later.

CHAPTER 4: DONOR-ADVISED FUNDS VS. PRIVATE FOUNDATIONS

Jessie Bobinski: Donor-advised funds (DAFs) have emerged as a solution for giving, and Burgundy recently launched a DAF as it is known through the Burgundy Legacy Foundation. Cynthia, can you take us through the benefits of utilizing a DAF?

Cynthia Kett: Donor-advised funds are really interesting donation facilitators, and there are a lot of very positive things. Usually, they're done through a registered charity and a public charity. And amazingly, if you make a donation through a donor-advised fund, your donations can be kept private if you wish. You can donate anonymously.

The other thing too is it offers a lot of flexibility. So, if you have one large appreciated asset that you want to donate and you want to benefit multiple charities, you don't have to dole out one share here to this charity and another two over here and three more over there. You can just donate a bunch of shares to one donor-advised fund, and then that can be allocated out to the different charities that you want to benefit.

> “[Donor-advised funds are] a very, very powerful, convenient, and flexible way to donate.”

The administration is so much easier. For a very reasonable fee, the donor-advised fund will take care of all of the reporting that needs to be done, and they will report to you annually as well. Donor-advised funds can be a one-time flow-through vehicle. So if you wanted to donate $100,000 and then immediately wanted to allocate that $100,000 out to various charities, you can do that.

Or if you wanted to create an endowment kind of donor-advised fund, you can do that. You could have that $100,000 invested with a good Portfolio Manager. That capital could grow over time, and then the annual income from that capital can be donated to various charities. It's a very, very powerful, convenient, and flexible way to donate.

The other thing is you can name your donor-advised fund. I have a Kett family donor-advised fund. I would say you can pretty much have all the benefits of a private foundation using a donor-advised fund.

Jessie Bobinski: At what point in time do you receive a tax receipt when you utilize a donor-advised fund? Is it at the time of placing the funds into the DAF, or is it when the donations are made from the DAF?

Cynthia Kett: You receive your donation receipt when you contribute the capital to your donor-advised fund. So, when the money goes in, that's when you get your donation receipt.

Jessie Bobinski: Thank you. Now, we are about to launch into private foundations and when families may consider the use of that tool as a way to be philanthropic. Can you share with us the benefits of a private foundation?

Cynthia Kett: Well, ironically, a private foundation can be quite public, and they're costly to maintain. So, I would suggest that unless you had say $3 to $5 million that you wanted to endow with a private foundation, that it might not be cost-effective.

The other thing, too, is that private foundations are required to report annually to the CRA, and those reports are posted on CRA's website. So everything that the foundation does is public and people can look to see how you're donating and who's benefiting. So, I think they were more popular before, but as the donor-advised funds have gained some traction, I think they're gaining in popularity as well.

To learn more about DAFs vs. private foundation, please see this Burgundy brochure.

CHAPTER 5: POTENTIAL CHANGES TO ALTERNATIVE MINIMUM TAX (AMT)

Jessie Bobinski: Now, many may have read about the potential changes to the alternative minimum tax and how it will be calculated beginning in the 2024 tax year. Cynthia, can you please walk us through what the alternative minimum tax is, the potential changes to its calculation, and what that means from a charitable giving standpoint heading into the end of 2023?

Cynthia Kett: First of all, a lot of people are probably not even aware of this alternative minimum tax (AMT) calculation. So what is it? Let's tell you what it is first, and then we can talk about how it's going to be changing.

Whenever an individual or a trust files a tax return, there are two concurrent tax calculations occurring in the background. One is your regular tax calculation, the one that you're probably most familiar with, and then there's another one called the alternative minimum tax calculation. And, so, when the regular tax payable comes out higher than the AMT payable, then you pay the regular tax. However, if the alternative minimum tax payable comes out higher than your regular tax, you pay the AMT.

How do they differ in the calculations? Well, what they do with the alternative minimum tax calculation is they will increase taxable income by increasing tax-favoured income, like capital gains, and they might reduce tax deductions and tax credits. And then after that adjusted taxable income is calculated, a flat rate of tax is applied.

Figure 2. AMT Changes Impacting Individuals and Trusts

	Current	Proposed 2024 onward	Item
First	$40,000	$173,000	Exempt Income
Tax Rate	15%	20.5%	Applied on amounts in excess of exempt income
Taxable Capital Gains on In-Kind donations*	0%	30%	

** Changes also proposed to other deductions, credits and inclusion rates on other items. Consult your tax professional for details*

Here's where the changes come in. Right now for 2023, it'll be the last year, the threshold for exempt income is $40,000. The positive thing is that in 2024, the threshold will increase to $173,000. So that's a bonus. It means that they really are targeting people in the higher tax brackets. However, those taxpayers who are caught by the new AMT are going to pay a significantly higher rate.

What they do is they calculate the adjusted taxable income and apply a flat rate of tax. Right now it's 15% at the federal level. They're proposing to increase it to 20.5% at the federal level, which is a 36 and two-thirds percent increase. Also, what they're doing is they're increasing the taxable portion of capital gains, including gains on in-kind donations (See Figure 2).

Remember we had said that if you donate appreciated public securities, it's a 0% taxable income inclusion? They are looking to include 30% of the capital gain in the adjusted taxable income, and they're reducing many tax deductions and tax credits by 50%.

Now, the legislation's only in draft form right now, so we don't know absolutely how it's going to roll out, but that's what we're expecting. But careful tax planning can reduce or eliminate the effects of AMT changes.

So, if you're in a high-income bracket and in the near future you're planning to sell a small business, make a large donation in kind, or access other large-scale tax-preferred strategies, then please take the time to reach out to your tax advisors well before the end of the year. Don't leave it till December. And ask them to run the calculations to see whether or not it would be better for you to do those things in 2023 or 2024, if you have some control over the timing.

The other thing to note is that, actually, the alternative minimum tax is what I refer to as a politically-motivated calculation because there are ways to avoid or to recover the AMT that you have paid in any one year.

You pay the AMT in a year when your AMT tax liability is higher than your regular one, but you can carry that excess forward up to seven years into the future so that in future years, if your regular tax is higher than your AMT tax, you can use some of the taxes that you paid in that high income year against your regular taxes payable in the future.

Jessie Bobinski: Thank you, Cynthia, for your sage advice. Thank you for sharing your expertise on charitable giving. And I urge you at home to please contact your advising team for further discussions and planning opportunities. B

Date of publication: November 8 , 2023

DISCLAIMER

This communication does not consider unique objectives, constraints, or financial needs. The opinions expressed here are those of the speaker at the time of recording only. This event has been organized for information purposes only and is not intended to offer investment, legal, accounting, or tax advice; provide recommendations or offers of solicitation; serve recruitment purposes; and/or serve marketing purposes. Burgundy assumes no obligation to revise or update any information to reflect new events or circumstances, although content may be updated from time to time without notice. Any numerical references are approximations only. Forward looking statements are based on historical events and trends and may differ from actual results. Content and links provided in this piece include proprietary information of Burgundy Asset Management Ltd. This content is not to be distributed without consent from Burgundy, and this is not intended as an offer to invest in any investment strategy offered by Burgundy. Viewers are advised that investments are not guaranteed, values change frequently, and past performance may not be repeated. Investing in foreign markets may involve certain risks relating to interest rates, currency exchange rates, and economic and political conditions. Because Burgundy's portfolios make concentrated investments in a limited number of companies, a change in one security's value may have a more significant effect on the portfolio's value. Characteristics described are also for illustrative purposes only and may exclude companies in the financial sector or with negative earnings as well as any outliers, as determined by Burgundy. Investors should seek financial investment advice regarding the appropriateness of investing in specific markets, specific securities or financial instruments before implementing any investment strategies discussed. Under no circumstances does any commentary provided suggest that you should time the market in any way.

For more information, please see https://www.burgundyasset.com/legal/ .

BURGUNDY
ASSET MANAGEMENT LTD.

TORONTO

Bay Wellington Tower, Brookfield Place
181 Bay Street, Suite 4510
PO Box 778, Toronto ON M5J 2T3

Main: (416) 869-3222
Toll Free: 1 (888) 480-1790
Fax: (416) 869-1700

VANCOUVER

999 West Hastings Street,
Suite 1810, PO Box 33
Vancouver, BC V6C 2W2

Main: (604) 638-0897
Toll Free: 1 (833) 646-6807

MONTREAL

1501 McGill College Avenue
Suite 2090, Montreal QC H3A 3M8

Main: (514) 844-8091
Toll Free: 1 (877) 844-8091
Fax: (514) 844-7797

CONTACT

info@burgundyasset.com
burgundyasset.com