



Gift Planning

- ⌘ *The Commemorative Gift*
- ⌘ *Charitable Remainder Trust*
- ⌘ *Gifts of Residual Interest*
- ⌘ *Stripped Bonds*
- ⌘ *Will Power*

METHODS OF PLANNED GIVING

Like most Canadians, you probably donate by cash, cheque or credit card to your church and favourite charities every year. These gifts are uncomplicated, they are certainly welcomed, and they do result in a tax credit. However, they may not necessarily be the most cost-effective way to make a charitable gift.

This booklet discusses various methods of planned giving along with examples, tax benefits and some planning ideas.

The Commemorative Gift	Page 3
The Charitable Remainder Trust	Page 5
Gifts of Residual Interest	Page 7
Stripped Bonds	Page 9
Will Power	Page 11





THE COMMEMORATIVE GIFT

One of the greatest satisfactions in making a charitable gift is the opportunity to pay tribute to someone who has touched you in a significant way. That's why commemorative gifts—in memory of someone deceased or in honour of one who is still living—are perennially popular and appropriate.

Through such a gift, you may honour a relative and perpetuate your family name, or you may recognize a mentor or friend who has greatly shaped your life. At the same time, your gift expresses your own commitment to the future of your community and provides valuable support for the charitable purposes you believe in.

OUTRIGHT GIFT

Various techniques may be used in making a commemorative gift, and each yields tax benefits. If you have available resources and would like to see your gift work at once, consider an “outright gift.”

Example: Jen A.'s mother recently passed away, and Jen wants to do something special to pay tribute to her memory. She contacts the ministry where her mother volunteered and learns it is seeking funding for a new project. In memory of her mother, Jen contributes \$25,000 for this project. The new project will perpetuate her mother's memory, and Jen will receive a donation receipt for the full amount of her gift. Assuming a federal/provincial tax credit of 46 percent, this can yield tax savings of as much as \$11,500.

Jen designated an immediate use for her gift. Other donors may prefer to direct their commemorative gifts to an endowment for the charity, where the gift principal remains intact and only the interest earnings are used, either for a purpose designated by the donor or for the charity's general purposes. A “named endowment” is a particularly appropriate way to ensure that the name of the person honoured will be remembered far into the future.

LIFE INCOME GIFT

Another technique that may be used to make a commemorative gift is the “life income gift,” which provides lifetime payments to the donor as well as a gift to the charity. Examples are the charitable gift annuity and the charitable remainder trust (returns vary depending on age of donor and current rate schedules).

Example: John B., a 75-year-old retiree, wants to endow an annual grant in honour of his long-time friend. Because he depends on the income from his assets, John contributes \$75,000 for a charitable gift annuity. For the rest of his life, he will receive payments of \$5,916 per year, and 84 percent of this amount will be tax-free. John is also entitled to a donation receipt of \$18,750, reflecting the gift portion of his contribution.

BEQUEST

A third technique for making a commemorative gift is the bequest.

Example: Matthew H.’s wife died last year, but he is grateful to the charity where she found friends and support while volunteering . As he updates his will, Matthew includes a bequest of \$100,000 to the charity, where it will be used to establish an endowed fund in his wife’s name. Income distributions from the fund will honour her memory and enhance an already effective ministry. At Matthew’s death, his estate will receive a donation receipt for the full amount of the gift. The tax credit will offset taxes on other income, including capital gain, which must be reported on his final return.

WE’RE HERE TO HELP YOU

Discover the satisfaction that comes from honouring a loved one. We can provide you with further information on commemorative gifts and discuss possible uses for your gift along with appropriate recognition for the one in whose name it is given. Through Siloam Mission, your tribute to one person will touch the lives of hundreds of Winnipeg’s homeless!



CHARITABLE REMAINDER TRUST

The charitable remainder trust is a versatile giving technique you can tailor to your own situation. You may have an asset (cash, securities or real estate) you would like to donate, but you need the income it provides. One possibility is to leave it as a bequest in your will. But there is another option: with a charitable remainder trust, you can make your gift now—and continue to receive the income for your lifetime, the joint lives of you and your spouse, or for a specified term of years.

Unlike a future bequest, which yields no immediate tax benefit, the charitable remainder trust provides you with a donation receipt in the year of your gift. You place the property in trust and designate the trustee who will administer it (any qualified institution or individual). This frees you from management responsibility and removes the property from your estate, guaranteeing your privacy.

Example: Henry K., age 70, wants to establish an endowed fund in memory of his deceased wife, but he is reluctant to give up any of his investment income. He transfers property worth \$250,000 to a charitable remainder trust from which his net income will be approximately \$15,000 a year for life. When he funds the trust, he receives a donation receipt for \$120,675, which, assuming a 46-percent combined tax credit, will translate into tax savings of \$55,510. After his death, the trust principal will be used to create the endowment.

THE TAX BENEFITS

The donation receipt Henry K. receives represents the present value of the future gift (the “charitable remainder”) which the charity will receive at his death. It is an actuarially computed figure based on the amount contributed, the age of the donor, and an appropriate discount rate. The amount of the donation, which may be claimed in any given year, is limited to 75 percent of the donor’s net in-

come, but the excess may be carried forward up to five years beyond the year of the gift.

FUNDING WITH APPRECIATED PROPERTY

The assets used to fund your charitable remainder trust may include securities and real estate. When you transfer listed securities that have appreciated in value and you are the income beneficiary, 100 percent of the gain attributable to the charitable remainder is tax-free.

Example: Henry K. funds his trust with \$250,000 worth of listed stock for which he paid \$100,000. The total gain on the stock is \$150,000. Assuming the computed present value of the charitable remainder is \$120,675 or 48.27% of the entire \$250,000 trust, Henry recognizes a capital gain of \$72,405 (48.27% of \$150,000). He receives two benefits: he pays no tax on the capital gain, and he receives a tax credit of \$60,337 from the donation receipt.

GIVING YOUR PERSONAL RESIDENCE

Perhaps your house is too big for your needs. If you move to smaller quarters and donate the house to fund your trust, you will recognize no capital gain, no matter how much it has appreciated in value. The trustee will sell the house and invest the proceeds to earn new income for you; and, at your death or the expiration of your trust, the charity or church will receive a significant and very welcome gift.

NOTE

Once established, the charitable remainder trust is irrevocable. We recommend you seek the guidance of your personal financial and legal advisors to determine if the charitable remainder trust is a suitable option for your finances.



GIFTS OF RESIDUAL INTEREST

You can have the satisfaction of making a major gift to charity now and receiving an immediate tax benefit... yet you continue to use and enjoy the property for the rest of your life!

It's known as a gift of residual interest with retained life use, and it usually involves your principal residence or other personal real estate, such as a cottage. In making such a gift, you transfer the property irrevocably to the charity but retain its lifetime use. If you wish, the arrangement can include use of property for your spouse's life.

When the transfer is made, you will receive a donation receipt for the present value of the "residual interest"—the value, in today's dollars, of the property the charity will receive at your death. This is calculated on the basis of the property's appraised value, your age, and an appropriate discount rate.

GIVING YOUR PRINCIPAL RESIDENCE

Living in your principal residence can be all the more satisfying if you know that, when you no longer need it, it will go to charity.

Example: Claire P., age 72, owns a home valued at \$200,000. She wants to continue living in it for several years but would like her favourite charity to have it at the end of her life. She decides to donate the home now, retaining a life interest for herself. She receives a donation receipt for \$85,421 which, assuming a 46-percent combined tax credit, will reduce her income taxes by \$39,294 over the next five years. (The portion of the donation receipt she may claim in any given year is limited to 75 percent of her income, but she has the gift year and five additional years to use the full amount.)

Because Claire's house is her principal residence, she realizes no taxable gain at the time of transfer, no matter how much its value has increased. During her continued occupancy, she will be responsible for maintenance and other expenses as specified in her gift agreement with the charity.

If it becomes necessary for Claire to give up the house sometime before her death, she has several options. She may rent the house and retain the rental income, give her life interest to the charity and receive an additional donation receipt or, by agreement with the charity, sell the house and receive a share of the proceeds based on the value of her life interest.

GIVING OTHER TYPES OF REAL ESTATE

It is easy to see how a residual interest in a personal residence can be an appropriate gift, but other property you own and use may also be a likely candidate. In this case, you will be taxed on 50 percent of the capital gain attributable to the residual interest, but the tax savings from the donation receipt will more than offset the tax on the gain.

Example: Steven R., age 72, has a cottage on Lake Winnipeg. He purchased the cottage many years ago for \$40,000, and it is now worth \$100,000. He is reluctant to sell it, both because he still uses it frequently and because the sale would result in a taxable gain of \$30,000 (50 percent of \$60,000). By transferring it to charity with a retained life interest, only 50 percent of the gain attributable to the residual interest will be taxed. In Steven's case, the \$53,608 donation receipt he receives for the overall value of the residual interest will more than offset the taxable gain of \$16,082.

When you give property that has appreciated in value, the amount of the donation receipt claimable in any one year is 100 percent of the taxable gain in the gift, plus 75 percent of your other income. This assures that you will always realize net tax savings, no matter how much the property has appreciated.

NOTE

With real estate held solely for investment purposes, it generally makes more sense to contribute the residual interest by means of a charitable remainder trust.



GIVING A STRIPPED BOND

For many years, governments and corporations have borrowed money from individuals by issuing bonds. As the lender, you purchase the bond at its face value then receive interest at a fixed percentage until the bond matures and the face amount is returned to you. (Bonds may also be bought and sold on the “secondary market” at current market prices; in that case, you receive the stated interest for whatever time you own the bond.)

A stripped (or zero coupon) bond is a financial product sold by bond and securities dealers. Basically, it is a corporate or government bond from which the interest coupons have been stripped away. Instead of paying income to the holder, it is sold at a discount for much less than its future redemption value.

An individual who buys and holds a stripped bond must pay income tax each year on the growth in the bond’s value. However, when the bond is purchased and gifted to a charity, neither the buyer nor the charity is taxed, so its value increases tax free—often doubling or tripling before it matures.

Example: Jim B. wishes to establish a named endowment in memory of his wife. For \$15,000, he purchases, in the charity’s name, a stripped bond that will mature in 10 years at a face value of \$30,000. He receives a donation receipt for the full cost of the bond and, assuming a combined tax credit of 46 percent, realizes tax savings of \$6,900 (46% of \$15,000). He has made a future gift of \$30,000 to charity at a net cost of only \$8,100 (\$15,000-\$6,900)!

SELECTING A BOND TO FIT YOUR GOAL

The cost of a stripped bond will depend on the years until maturity and the amount you want the charity to receive. Bond prices and yields fluctuate virtually every day. Contact an investment broker to obtain the most current stripped bond rates.

If you intend to use your stripped bond to establish a named endowment as Jim B. did in the example above, its present value must equal or exceed the established minimum for a new named fund. For a gift to the general endowment or a previously established named fund, a bond of any size may be used.

PURCHASING A STRIPPED BOND

Virtually any investment broker can provide a stripped bond, although you may wish to secure quotations from more than one to ensure that the pricing is sufficient.

If you would like to give a stripped bond to Siloam Mission and already have an account with a broker, you may use the broker to make your purchase, register the bond in the name of Siloam Mission and deliver it to us. Alternatively, you may give us a cheque for the required amount, and we will purchase the bond.

The settlement contract with your broker or your cheque to Siloam Mission will be the basis of your tax receipt.

WE'RE HERE TO HELP YOU

If you would like our help in arranging your gift, please feel free to call us. We also recommend that you review this information with your financial advisor to ascertain its appropriateness to your situation.





WILL POWER

Will power is yours when you write a will and include a church or charity. Your “present” will be a gift that endures far into the future.

You have the power to use the accumulated fruits of your lifetime to provide for your loved ones as you see fit, rather than as the government determines—and the power to ease the transition of your passing for those who survive you. Moreover, a will is fully revocable while you live: you retain control and can easily make revisions should your circumstances change.

When you include Siloam Mission in your will, you are using your will power to help support ongoing and future essential ministry and programs. Bequests enable us to build a strong funding base, which will support our work with Winnipeg’s homeless community far into the future.

WHERE THERE’S A WILL, THERE’S A WAY

If you presently have a will, you can easily add a codicil providing for a bequest to charity. If you do not have a will, this is the time to prepare one—and you will find it is neither difficult nor expensive.

A charitable bequest also provides for tax benefits. At your death, your estate is entitled to a donation receipt for the full value of your bequest, providing a significant tax credit on your final tax return.

Example: Samantha J., a widow, leaves \$100,000 to charity and the remainder of her estate to her two children. Assuming the entire amount is claimable and the combined tax credit is 46 percent, her bequest results in a tax saving of \$46,000. If she had left the \$100,000 to her children instead of giving it to charity, taxes would have consumed \$46,000, leaving the children with only \$54,000.

It is likely that the entire bequest will be claimable. This is because the donation limit is 100% of income in the year of death, and the

100% limit also applies to any excess carried back to the prior year.

MAKING IT FIT YOUR NEEDS AND GOALS


Your bequest may take any of several forms. Here are some examples, with appropriate wording.

- ◆ A general bequest is for a certain dollar amount of property, usually cash: “I give... the sum of \$100,000 to be used for general purposes at their discretion.”
- ◆ A specific bequest directs that the charity is to receive a specific piece of property: “I give... 500 shares of XYZ stock.”
- ◆ A residual bequest designates all or a portion of whatever remains after all debts, taxes, expenses and other bequests have been paid: “I give... fifty percent of the rest, residue and remainder of my estate.”
- ◆ A contingent bequest takes effect only under certain conditions: “In the event that my wife does not survive me, I give... the sum of ____.”

In addition to the choice of form, you also have options as to the purpose for which your bequest will be used. While most charitable bequests are simply for general purposes (as in the first example above), you might choose to make a restricted bequest to be used for a particular program or project.

Subject to the charity’s policies, you may specify that the principal of your bequest be held as an endowment from which only the income is expended, or establish a named fund in your name or as a memorial to a family member, friend or colleague.

For any of these purposes, it is important to confer in advance with the charity to ensure that your wishes can be met and that your bequest provision is properly worded.



LET US HELP YOU – AND THANK YOU!

Whichever of these forms and purposes you choose for your bequest, Siloam Mission's financial department is able and eager to assist you. We can send you a helpful booklet on how to make a will and would be happy to meet with you and your legal and financial advisors, if you wish, to discuss your goals and refine the wording of your bequest.

When you have completed your will or added a provision for Siloam Mission to your current will, we hope you'll let us know so we can express our thanks!

All examples are current as of September 2006 and are subject to change.



About Siloam Mission

As a Christian humanitarian agency, Siloam Mission is a connecting point between the compassionate and Winnipeg's less fortunate.



Siloam Mission alleviates the hardships of poverty and homelessness as Mission staff, volunteers and donors provide free meals, shelter, clothing and support services.



The Mission assists in transitioning homeless and disadvantaged people to more self-sufficient and healthier lifestyles by providing referral services, life-skill development, education upgrading and employment training opportunities.



Financial Planning

The information in this booklet does not constitute legal or financial advice and should not be relied upon as a substitute for professional advice. You should always seek professional legal, estate planning, and financial advice before deciding on a course of action.



If you would like information on other methods of planned giving, please contact us and we would be glad to assist you in whatever way we can.



300 Princess Street Winnipeg, MB Canada R3B 1M3

phone: 204.956.4344 | toll.free: 1.866.648.HOPE (4673)

web: www.siloam.ca | email: info@siloam.ca | fax: 204.956.0956