Residual Interest Gifts

> Many donors possess valuable assets that they wish to leave to charity but are concerned about future cash needs or having ongoing access to gifted assets during their lifetime.

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Residual Interest Gifts

Donors may possess valuable assets that they wish to enjoy now, but eventually leave to charity. While such donations are traditionally given from a donor's estate, there are options available that would allow them to structure a residual interest gift now so that they continue to enjoy the assets or an income throughout their lifetimes while receiving significant tax benefits.

Residual Interest Gifts fall into two distinct categories: Charitable Remainder Trusts and Residual Interest Gifts. Charitable Remainder Trusts generate an income for the donor during their lifetime. Donors elect this option if their primary consideration is receiving income from an asset such as appreciated securities, registered retirement plans or rental properties during their lifetime. Alternatively, Residual Interest Gifts allow the donor to enjoy or benefit from a valued asset that they wish to leave to charity following their death. Therefore, if the donor wishes to have lifetime access to a donated asset such as an art collection, a second home or other valued asset but does not wish to receive income, then they would choose to make a Residual Interest Gift.

A Charitable Remainder Trust

A Charitable Remainder Trust (CRT) is any type of trust (inter vivos or testamentary) created by a donor where all or a portion of the Trust's assets are to be distributed to a charity upon the death of the donor. The donor or the Trust may qualify for a donation receipt depending on how the Trust is structured and whether or not it meets CRA conditions. Creating a trust requires careful planning to ensure that it achieves the donor's wishes and a donation receipt is issued to the appropriate entity. For a donor to receive an immediate donation receipt, the terms of the Trust must specify that the capital remains intact for the benefit of the charity while only the income is paid out to the donor.

> “When the donor passes, the capital stays intact without going through probate, however any capital gains realized by the Trust will be taxed in the hands of the Trust”

Residual Interest Gifts

In the case of Residual Interest Gifts, the donor will gift an asset with the full understanding that they will have continued access to or discretion over the use of the asset for a specified term, usually until the time of their death. The charity will issue an immediate donation receipt to the donor at the time of the donation. The amount of the receipt will be based on the estimated present value of the residual interest of the donated asset when the donor dies. When the donor passes, the gifted assets, which have already been transferred to the charity will not be subject to probate.

Donor Advised Funds & Residual Interest Gifts

> A donor advised fund allows you to easily adjust recommended grant recipients over time without the cost of amending the Trust

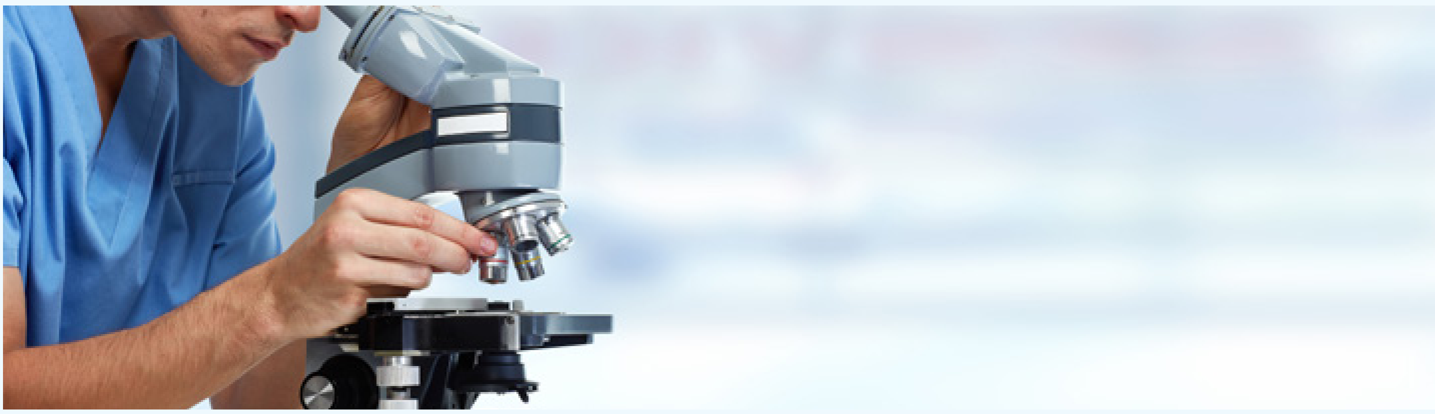
Gifting an investable asset. By combining the benefits of a CRT with a Donor Advised Fund (DAF) sponsored by *Gift Funds Canada*, you can achieve greater long-term flexibility and have the potential of creating a legacy gift fund for future generations. A donor advised fund allows you to easily adjust recommended grant recipients over time without the cost of amending the Trust. In most cases, CRT's are prohibited from modifying the benefitting charity but a DAF has no such restrictions. If you are planning on gifting an investable asset, the donor will receive income for life or some other specified term. Investable assets gifted to a CRT can include cash, publicly traded securities, a RRSP or a RRIF, some types of closely held stock or complex financial assets and income producing property.

Gifting a non-financial asset. If the donation is a non-financial asset (e.g. personal use real estate, artwork, etc.) the donor or a named beneficiary will have use of the asset for a specified term - usually life. The same benefits and advantages of using a combination of a CRT and a donor advised fund apply to a Residual Interest Gift.

Leveraging A Donor Advised Fund

Establishing a Charitable Remainder Trust for an Immediate Donation Receipt. A donor will establish a Charitable Remainder Trust (CRT) using the services of a qualified legal professional and naming their choice of charity or foundation as the beneficiary. A Trustee will be named to oversee the management of the assets of the trust. The named beneficiary, either a charity or foundation, will issue an immediate donation receipt for the estimated residual value of the asset. The CRT will continue to operate as a Trust until such time as the donor or both the donor and their spouse pass.

Naming a Donor Advised Fund as a recipient of your gift. At the time that the CRT is established, the donor can name *Gift Funds Canada* as the beneficiary of the assets of the Trust. *Gift Funds Canada* will issue an immediate donation receipt based on the estimated residual asset value at the time the donation is made. A Donor Advised Fund will be opened for the donor at this point in time in order to issue the receipt. In accordance with the donor's wishes and based on the chosen Donor Advised Fund program, a specific charity or charities may be named as grant recipients or the DAF can be leveraged to undertake an annual grant-making program over time, leaving a lasting philanthropic legacy. As such, any gains or appreciation of assets held by *Gift Funds Canada* within the DAF over time will be received tax-free.



Leveraging A Donor Advised Fund

A Residual Interest Gift and a Donor Advised Fund. In the case of a Residual Interest Gift, the donor contributes the asset to Gift Funds Canada, but retains the use of the asset for a specified term - usually life. Gift Funds Canada will open a Donor Advised Fund according to the information provided by the donor. An immediate donation receipt will be issued based on the present value of the residual interest of the gifted asset. In most cases the asset will be sold when the donor's retained interest expires. The DAF will go on to be managed in accordance with the donor's written directions and based on the DAF program that was chosen. Any gains or appreciation of the assets held by Gift Funds Canada within the DAF will be tax-free.

Tax Considerations for a Residual Interest Gift. Tax considerations include the possibility that assets transferred to the Trust having unrealized capital gains may trigger capital gains consequences upon transfer. If the Trust holds investment assets, the donor will likely have to pay tax on income realized by the Trust each year. With good planning, the tax benefits of the donation receipt may offset the tax liabilities triggered by the transactions.

For further information or to discuss establishing your own Donor Advised Fund, please contact us at:

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