



# Cove

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## Winter 2006 Quarterly Letter

It has been a busy year for Christie and me with the added challenge of building a summer home in Point Roberts. I am happy to say that it has been a rewarding and satisfying experience. What used to be a bare piece of land is now the site of our own special family retreat, which we hope to enjoy for many years to come. The kids pitched in where they could and everyone found a way to become involved in this project in one way or another.

Last year was a year of slacking when it came to athletic endeavors. Christie and I have however committed ourselves to once again riding the infamous Kettle Valley Railroad Challenge in 2007. We hope to collect all of our KVR Challenge cohorts to make the 2007 ride the best one yet. I also hope to tackle a Sea2Summit on a Solo basis but I am not sure how I will make the transition between getting off the couch and back into the saddle again in a serious way.

Christie is still coaching our daughter Nicole's U13 Gold soccer team. After a rough season last year, they were able to get back on top with her new squad of select girls and are working their way towards the regional championship and hopefully the provincials. The two boys are playing basketball and hockey but their first love is still mountain biking and motor bike riding and in spite of not making any trips to Whistler we were able to squeeze in some great riding here and there. Our motocross track got lots of use over the summer months as the boys ride between the times spent helping build the house and the time they spent building bigger and bigger jumps. Everyone is well which is the most we can ask for at any time.

This winter's letter will focus on creative Charitable Gifting ideas to get you into the holiday spirit.

*"A small body of determined spirits fired by an unquenchable faith in their mission can alter the course of history." Mahatma Gandhi*

### **MPS – Mucopolysaccharidoses**

If you have never heard of MPS you are not alone. I wouldn't know about it except for learning of the child of an acquaintance with MPS and consequently receiving an invitation to a fund raising dinner and silent auction to raise money for research to find a cure for this disease. My assistant Katrina is very involved with the MPS Society through their annual MPS Cup Gala, an event which raises awareness and money to fight MPS. Only 1 in 22,500 are born with MPS so the numbers are not huge and that creates a problem. Given the rarity of MPS, funding for research is hard to come by. It's not a headliner because so many people have it, it's a headliner because the governments won't fund research or treatment of MPS. Neither the provincial nor federal government will acknowledge the legitimacy of the treatments because they are deemed experimental. The fact is that treatments for some of the 8 types of MPS are working, dramatically extending the lives of children fortunate enough to be effected by a treatable type.

The symptoms and signs of MPS are unmistakable, ranging from progressive severe physical deformity, coarse facial features, short stature, corneal clouding, speech and hearing impairment, chronic running nose and diarrhea, hernias, heart disease, bone disease, stiff joints, liver and spleen enlargement, hyperactivity, mental retardation and shortened life expectancy. Kids with MPS have a life expectancy of about 12 years without treatment and endure a life of progressive deterioration of mental and physical health.

Funding for research is largely provided by small groups of individuals who make a concerted effort to raise the much needed money. Much of the ground breaking research in this disease has been done by our own University of British Columbia. Research grants are hard to come by due to the tremendous uncertainty around viability of any current experimentation towards finding a cure. If you

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would like to make a huge difference for this group of suffering families please give to the Canadian MPS Society. We saw results presented at the dinner that illustrated the significant progress that was made by the research team in only one year using the money that was raised at last years MPS Cup dinner. The cost of treating a type 1 MPS sufferer today with experimental drugs is \$400,000 per year. All MPS patients are children under the age of 20 years.

If you want to join us this Spring at the MPS Cup Gala dinner and Canuck Alumni hockey game you are more than welcome. Please call us for details.

*"Never forget that God is able to lift you from the fatigue of despair to the buoyancy of hope, and transform dark and desolate valleys into sunlit paths of inner peace." Rev. Martin Luther King, Jr.*

### **The Aqueduct Foundation**

With the increased deduction limits and reduction in Capital Gains inclusion for charitable donations in Canada it costs less now than ever before to make charitable gifts by way of your will or by way of gifts to charities during your lifetime. An increasingly popular vehicle for making significant charitable gifts is the Charitable Foundation model. Foundations come in a variety of shapes and sizes. There are large public foundations that collect money from donors and distribute it to a number of charities that need money. The choice of charities that the foundation supports is determined by the board of directors according to their charter. Some foundations raise money for a specific cause that they were created for while others are simply large vehicles to assist donors in making donations to any number of charities. Foundations may also include a feature that allows the donor to direct which charity will receive funding from the donors contribution. Most foundations have a goal of building capital that will provide long term funding for the works of the charity on an annual basis. All foundations have minimum distribution quotas that have to meet federal regulations. The quotas vary depending on whether the foundation is a public or private foundation.

Private foundations are set up by individuals, families and closely held businesses to provide direct control over the use of the foundation resources. Funding is provided by the individual, family or business that founded it and the board is largely made up of related parties. Private foundations are an excellent vehicle to establish a charitable program for a family that wants to put their wealth to use in a charitable manner and wants to directly involve family members in the goal of philanthropy. Private foundations can be created at death of an individual as part of the overall estate and tax planning process or can be established during the lifetime of the donor as part of a tax planning/philanthropic planning process. The cost of setting up a private foundation is approximately \$10,000 with an annual administration and filing cost of approximately \$2,000. The amount of money administered by the private foundation will be the main factor in determining whether the expense and involvement of setting up a private foundation is a viable approach. Typically a minimum contribution of \$1,000,000 is needed to justify the formation of a private foundation.

A new foundation to hit the streets is unique and innovative. Scotia Trust, a large foundation manager in Canada, has introduced the Aqueduct. The Aqueduct is aptly named because it is designed with the intent to not only distribute income earned by foundation assets but to allow the flow through of capital contributions as well. The Aqueduct is also a donor managed fund which means that your gift can be directed to charities of your choice or can be directed by the foundation board if you choose not to be involved. The flow through capacity of the foundation means that you can choose to accumulate funds with the intent to build an endowment or you can flow the capital through in lumps sums keeping the account empty. The flow through nature of the Aqueduct offers one more significant planning opportunity. You can build assets in your donor directed fund, get the deduction for all contributions and in the event that you choose at some future date to set up a private foundation you can direct that the Aqueduct to distribute the funds in your donor advised fund to your

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private foundation. This transfer of assets can take place at any time during your lifetime or at death when additional testamentary gifts are contemplated. The minimum capital contribution or account balance to use the Aqueduct foundation option is \$250,000. You get the features of a private foundation with the flexibility, convenience and economies of a large foundation.

If you are interested in getting involved in charitable gifting either during your lifetime or via your will please feel free to give me a call to discuss the options. Your life insurance can be an effective tool to gift to charity at a very low cost and combined with the ICF strategy it can be a no-cost proposition.

*"Love cannot remain by itself - it has no meaning. Love has to be put into action and that action is service." Mother Teresa*

### **Creative Gift Planning**

In this section I will cover the cost of making gifts to charities. In the 2006 budget the Conservative government introduced legislation that eliminated the Capital Gains tax on publicly traded shares that are gifted to a Public Charity. This has opened the door to significant opportunities for high income earners and business owners. The effect of this is that it makes more sense for an individual or corporation to make a gift of shares versus a gift of cash.

Let's assume you purchased shares or mutual funds at some point for \$5,000 and the current Fair Market Value (FMV) is \$10,000. If you were to sell those shares and gift cash, your tax cost would be \$1,092, which would leave you \$8,908 to gift in cash. The donation credit would be approximately \$3,892 for a net cost to you of \$6,108 for an \$8,908 gift.

Now let's assume that you gift the shares directly. There would be no Capital Gains tax payable so the Charity would get \$10,000 and you would get a donation credit of approximately \$4,370, a \$1,092 Capital Gains Tax Savings for a net cost to you of \$4,538. If you had a corporation and you rolled the shares into your company to make the gift the scenario would look like this: There would be no tax payable to roll the shares into the company. The Capital Gains tax would not be payable on the gift to the charity and to the extent that the corporation received a non-taxable capital gain a credit to the Capital Dividend Account would be created. The donation credit would be worth \$4,370 to you, the Capital Gains Tax savings would be \$1,092 and the CDA credit would worth about \$582 in tax savings. The net cost for a \$10,000 gift to charity is now only \$3,956.

### **Technical Notes**

The Capital dividend account is defined in subsection 89(1) and one of the components consists of a private corporation's capital gain less the taxable amount of the capital gain (I have greatly simplified the wording from the description in the Income Tax Act). In a normal taxable disposition of a capital property, that would mean an addition of 50% of the capital gain - i.e., 100% of the gain less the 50% taxable portion of the gain. However, in paragraph 38(a.1), the taxable capital gain from the disposition of publicly traded securities to a "qualified donee", (other than a private foundation) is equal to zero. Qualified donee is essentially a registered charity. The result is therefore 100% of the capital gain less zero, and an addition to the corporation's capital dividend account of 100% of the gain. As an editorial comment, it is interesting that the Department of Finance chose to make the taxable capital gain equal to zero, instead of the capital gain (which would, of course, have meant that there would be no addition to the capital dividend account).

Another scenario worth noting involves gifting Flow Through Shares (FTS) that were purchased by an individual or corporation. I assumed no growth on the investment. The performance of the FTS are subject to the volatility of the underlying investment and this should not be misunderstood as a commentary on the performance of Flow Through Shares but simply an explanation of the potential tax savings opportunities presented by FTS. For more information about specific FTS please contact

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Chad Ekren at Berkshire Securities at (604) 432-7743, or your own investment advisor. Most FTS have a mandatory hold period which can be anywhere from 3 months to 24 months. At maturity they become fully liquid.

The purchase of a qualifying FTS will allow you to deduct 100% of the purchase price from normal income either personally or corporately. Special FTS may also qualify for Provincial Tax Credits which will increase the tax benefits in addition to being fully deductible. The Cost Base of a FTS is Nil. The difference between the market value and the Cost Base is treated as a Capital Gain.

### Cost of Gifting Summary (Marginal Tax Rate of 43.7%)

\$10,000 Gift	Deduction Tax Savings	Donation Tax Savings	Capital Gains Tax Savings	CDA Tax Savings	Net Cost (Negative denotes profit)
Cash	NIL	(4,370)	NIL	NIL	5,630
Shares – Personal***	NIL	(4,370)	(1,092)	NIL	4,538
Shares – Corporate***	NIL	(4,370)	(1,092)	(582)	3,956
Flow Through Shares* - Personal	(4,370)	(4,370)	(2,184)	NIL	(924)
Flow Through Shares* - Corporate**	(4,370)	(4,370)	(2,184)	(4,490)	(5,414)

\*Assumes no growth and no loss relating to the FTS.

\*\*Assumes that if the donation wasn't made the funds would be subject to personal tax rate of 43.7% when paid out to shareholder as a bonus

\*\*\*Assumes 50% of value is capital gains growth

### In The News

Lawsuit filed in hopes of cutting medical wait times

Nov, 15 2006 - 12:30 AM, VANCOUVER/CKNW(AM980) - A Vancouver-based medical broker is hoping a lawsuit it's launching against the Ontario Government will ignite political debate over long waiting times for medically necessary services.

66-year old Newmarket resident Lindsay McCreith contacted Timely Medical Alternatives after he was told he'd have to wait four months for an MRI following a seizure. One month and \$27-thousand later he had a malignant brain tumour removed in Buffalo.

Timely Medical President Richard Baker says the case could set a precedent for the rest of the country, "We're in discussions with the BC Government, as it happens, on a client of ours from Vernon who has a compelling story and we're not releasing the story yet but we put the BC Government on notice we'd like them to repay her out of pocket and ultimately they could face the same situation as the Ontario Government." The suit will argue that the Ontario Government's actions violate the Canadian Charter of Rights.

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any other when it comes to health care and recommend you purchase TriAccess to meet your health insurance needs.

### **In Closing**

I recently met a wonderful couple. I would like to share their dream with you. Cosimo Geracitano built a Jade Book. He carved it from a solid 150 lb boulder of Jade and it has pages that turn. His daughter Daniella wrote a book to accompany it. Cosimo wants the world to hear his message of peace and joy. Daniella tours with him to talk about the book in schools and other forums. I received a copy of Daniella's book as a gift and I want to tell you about The Jade Book. Cosimo spent two years carving his rough boulder into a book with pages that contain select quotes of Mother Teresa, Martin Luther King and Mahatma Gandhi; it is truly a work of art. You can see it at their website [www.colossalcreations.com](http://www.colossalcreations.com). I encourage you to check it out. The quotes contained in this letter are quotes that appear in the Jade Book and I wanted to share some with you.

My business has provided me with an exceptional opportunity to meet people that care about others and their community. Life insurance and financial planning have provided me with immeasurable rewards in having been introduced to many people for whom I care very much about. They all have one thing in common: they care about something and someone deeply. I am a better person for having come to know you. Thank you.

On behalf of myself, my family and my team here in The Cove I send you best wishes for a happy holiday season and a prosperous New Year.

*"To make possible for me to see the face of God with my human eyes, He has made Himself the hungry one, the naked one, the homeless one, the lonely one and He says: "Whatsoever you do to the least of my brethren you do it to me". Shandhiji has said: "He who serves the poor serves God". Mother Teresa*

Sincerely,  
**Cove Financial Planning Ltd.**

Bernie Geiss, CLU, CFP, RHU  
Certified Financial Planner

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