Tax It or Keep It?
Philanthropic Considerations When Selling a Business

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Selling a business is an exciting and stressful event with numerous considerations. Much emphasis is placed on maximizing value and minimizing tax. However, you can also redirect some of the proceeds of the sale into charitable giving to achieve your philanthropic goals.

This article focuses on the opportunities and benefits of strategically planning your philanthropic and legacy goals before transacting the sale of a business or taxable capital property.

During negotiations, planning for charitable giving may not be top of mind, even though it can lead to additional tax savings against a significant taxable event. The tax benefit of a charitable donation can be enhanced or accelerated through additional planning of the structure and timing and; therefore, should be given consideration before, or during, a sale.

Opportunity to engage with philanthropy

Whether you are new to philanthropy or already engaged, the sale of your business (or taxable capital property) presents a unique opportunity to assess your charitable giving goals. Making a significant charitable gift or gifts before the end of the year in which a sale takes place, either personally or corporately, can reduce the tax bill arising from the sale. This is also the time to think about strategic philanthropy by establishing a donor advised fund or private foundation instead of direct donations to individual charities. A donor advised fund, such as the BMO Charitable Giving Program,[1] is a cost-effective turn-key solution to fulfilling your philanthropy; whereas a private foundation requires a bit more time to set up, but provides more flexibility.

It is worth noting that you can engage a BMO financial professional to set up a donor advised fund through the BMO Charitable Giving Program to receive an immediate tax credit. You can then transfer the assets of your fund to a private foundation at a later date once you have formulated a charitable giving strategy.

Donor advised fund vs. private foundation

When to consider a donor advised fund	When to consider a private foundation
✓ Smaller threshold amount ($100,000); ✓ The donor does not want to manage the fund or invested assets directly; ✓ The donor would like to have a fund in their name, or another family member's name, but doesn't want the work of managing it directly; and ✓ There is no need to assess grants, deal with grant-seekers or collaborate with other funders.	✓ The fund is larger – typically $1 million or more; ✓ The donor has some time to devote to foundation work and wants to be more involved; ✓ The donor wants to include family members in philanthropy; and ✓ The donor wants to assess grants themselves, work more closely with grant-seekers and collaborate with other funders.

Family legacy

Ensuring that your needs, and the needs of your family, are met is important. In addition to taking steps to preserve and grow your wealth, you should consider planning for the successful transfer of wealth to the next generation – research has shown that only 10% of wealthy families adequately prepare their heirs for the future. A successful transfer of wealth requires careful planning, open communication and the creation of a family governance structure that will ensure that wealth is stewarded over future generations.

Strategic philanthropy

Strategic philanthropy identifies the family's values and translates them into program goals and a mission statement. With guidelines in place to support the program goals, you can focus on making an impact with giving. Speak to your BMO financial professional to learn more about how **BMO Philanthropic Advisory Services** can assist you in developing your philanthropic strategy.

Tax-effective giving

Canada has one of the most generous regimes for reducing tax through charitable giving. Donations of appreciated publicly-traded securities, either personally or corporately, can eliminate taxes owing on capital gains that have accrued on those securities, while still providing the individual or corporation a tax credit or deduction (respectively) on the full value of the donated securities. Where existing appreciated publicly-traded securities are held, those could be used to make charitable donations, and the proceeds from a business sale can then be used to re-purchase the donated securities. Speak to your BMO financial professional for more information on strategies for making tax effective charitable gifts to a charity, your donor advised fund or private foundation.

Magnify your gifting strategy with life insurance

Permanent life insurance can be used as part of your charitable giving strategy, including funding your donor advised fund through the BMO Charitable Giving Program. Ownership of an existing or new permanent policy can be transferred to your fund, or your fund can be the beneficiary of the policy. Speak to your BMO financial professional to learn more about how a **BMO Estate & Insurance Advisor (Financial Security Advisor in Quebec)** can provide more information on how to leverage life insurance for charitable giving.

For more information, please speak with your BMO financial professional.

BMO Private Wealth

[1] The BMO Charitable Giving Program is administered by the Charitable Gift Funds Canada Foundation ("Gift Funds Canada"). Gift Funds Canada is an independent, non-profit charitable organization registered as a public foundation with the Canada Revenue Agency.

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