

A bit of pain for gain - rewards worth it

Lyndsay, one of our legal assistants, is in for a lot of pain this fall.

In order to raise funds for cancer research, she will be bicycling all the way from Vancouver to Texas. That is a distance of over 5,000 kilometres, with some really significant uphill climbs. I admire her fortitude and her dedication to cancer research.

At this point, the conventional approach would be to talk about charitable giving and how donations to charities (such as the one behind Lyndsay's arduous trek) can provide income tax advantages. However, I prefer to approach the matter in another way.

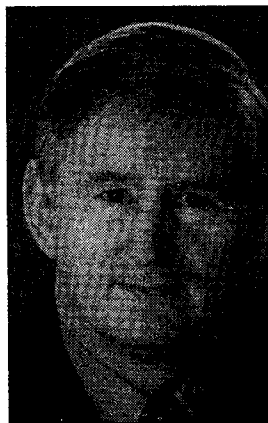
If I donate \$100 to a registered charity, I receive a tax receipt and can claim some tax relief for the donation. Usually, my \$100 donation would save me about \$44 in tax, so the donation really cost me only \$56. This is generally seen as a tax advantage, but this characterization fails to address the cash flow issue. If I had kept my \$100 and paid the \$44 in tax, I would have \$56 left

over. By donating the \$100, I save \$44 in tax but I have still spent \$100 and have no cash left over. So speaking about a tax advantage seems to miss the point. The donation is tax-assisted, but I still have to be philanthropically motivated to make the donation.

Just like Lyndsay will find out on her long bicycle trek to Texas, giving hurts a bit. But the non-financial rewards are usually worth the pain. It is those intangible non-financial rewards that will have to keep Lyndsay going on those long uphill stretches.

I prefer to think of charitable donations as a form of joint venture with the government.

Perhaps you do not like the way that the government spends money. The ability to donate to charities allows you



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to influence the government budget. If you donate \$100 to a worthwhile charity, you are essentially redirecting \$44 in government funds to that charity. You also kick in \$56 as your contribution to this joint venture, but you have now "forced" the government

to spend money on a cause that you think is worthwhile. Why, it's almost like being an assistant deputy minister of finance.

Of course, there are lots of special rules that apply in respect of certain types of charitable gifts. For example, you can donate publicly-traded shares (for example, shares of Bell Canada) to a charity without triggering a capital gain (Lyndsay is not set up to take donations of publicly-traded shares, however). That means that more of the donation receipt

can be applied against other income (you do not have to use any of the donation receipt to cover the capital gain that would otherwise have arisen on the disposition of the securities). But you still have given away property and still have a personal cost for making the donation (your contribution to the joint venture with the government). So it hurts a bit, but the special rules make it more like pedaling on a straight flat stretch rather than struggling up the Rocky Mountains.

There have been some complicated schemes lately in which donors have received charitable donation receipts for much more than the amount actually donated. The Canada Revenue Agency has been attacking those complicated schemes with a high degree of success. It all comes back to the basic rule - a charitable donation should hurt a bit. If there is no pain, there is likely no gain.

Lyndsay will learn this lesson again and again on the way to Texas.

But even if there is some

pain, the ultimate goal - supporting a worthwhile cause - is well worth it. The benefits are non-financial, of course - the satisfaction of having made a difference to someone's life, maybe even a complete stranger. Your donation might be the amount that gets a research project over the top so that it makes that tiny incremental gain in knowledge that ultimately leads -- tiny incremental step after tiny incremental step -- to a treatment that extends a life. As Lyndsay will say at many points in her trip, "Just one more mile, just one more mile...".

So how do you donate to Lyndsay's fund raising effort for cancer research? You can use a credit card to donate online at www.5000kmforthecure.com. Or you can go to the web site to learn about upcoming fund-raising events.

Lyndsay will end up suffering most of the pain on this ride, but we can all chip in and share some financial pain."

- Blair Dwyer is with Dwyer Tax Lawyers in Victoria.