The Legacy of Kindness of Strangers Makes a Big Difference to a Grateful Student

Dorcus Bakawa is a good-natured student with an easygoing manner and a bright smile. The third-year engineering student gets serious, though, when she talks about the generosity of the Civil Engineering Class of 1949.

The class established a Civil Engineering Bursary in 2001, for students facing financial hardships and to date 12 students have benefited from this financial life-line. A little over a year ago, amongst these recipients was Bakawa, an international student from Uganda, who received the $3,000 bursary, when it mattered the most.

“I was sitting with a friend when I opened the email and it said I was getting $3,000” she recalls. “I was so happy I screamed and gave my friend a big hug.”

She phoned her father in Uganda, too, to share the news. As an international student Bakawa pays full tuition—considerably more than Canadian students do. Add to that the cost of textbooks and living expenses (she lives with her two sisters and chips in on the rent) and it’s easy to see how costs can quickly add up.

Of the $3,000 bursary, $1,500 was from the Civil Engineering Class of 1949.

“I am so grateful that they would help me without even knowing who I am,” she said. “I hope that God rewards them too, for them being helpful to us and reaching out to us. I can never thank them enough.”

Bakawa arrived in Canada three years ago and took her first year of engineering through the U of A Engineering transfer program at MacEwan University. During the summer before she started...
at the U of A, Bakawa was involved in a serious car crash. She suffered a brain injury, lost vision in one eye for several weeks. Even after a month of rehabilitation at the Glenrose Rehabilitation Hospital, she was literally on shaky ground.

Doctors told her to take a year off school but Bakawa would have none of it. She compromised and took just two courses in her first semester and five in her second. But she was having difficulty focusing on her studies and found that her energy levels were lower than they had previously been.

“I used to work at Tim Hortons every day while going to school. I would be in classes from 8 a.m. until 4 p.m. and then work at Tim’s from 4 until 8 p.m. But after the accident I would get so tired and fatigued that I couldn’t work and go to school. I thought maybe I could work on the weekend but I have to do assignments on the weekends too.”

All things considered, she has been doing all right academically. She benefits from services provided by the Specialized Services for Students with Disabilities Office on campus.

“It’s tough,” she says of her academic program, “but I am getting through it.”

But financially, things were getting more and more difficult until she received a second bursary from University of Alberta International.

Now in her third year, Bakawa is planning out her fourth year of studies, hoping she can make up for the courses she missed after her accident. And she’s looking forward to joining the work force and becoming a professional engineer.

“I am willing to travel anywhere for my first job, so that I get to know what the field is all about and get the experience,” she said. “After that I would love to stay in Canada and work. Canada has given me the education I need and helped me so much with school and the university has helped me so much.

“I will see how it goes but I would love to stay in Edmonton—or anywhere in Canada.”

Rich Cairney
Editor, U of A Engineer
What’s in your estate?
Part 2

Nena Jocic-Andrejevic
Gift Planning Counsel, U of A Faculty of Engineering

In the last issue of Engineering Legacies we introduced you to what you need to consider when planning a gift to charity through your estate or through your will.

In order to begin the journey and create a plan we need to look at what is in the estate or what Mr. Brian Wilkie, our guest columnist, calls the Record of Assets. The second consideration is—of those assets—what could create the most beneficial tax saving legacy gift. Lastly, is there a wish to replace the value of the charitable gift(s) that will be donated from the estate or will the tax savings be sufficient to ensure all the heirs and other beneficiaries receive their due share?

In this issue of Engineering Legacies we will focus on what constitutes the Record of Assets. The other focus is on assets that make the best tax saving legacy gifts yielding the highest tax credits to the estate.

What is a Record of Assets?

Brian Wilkie, CFP, MNRM
Wilkie Financial, Certified Financial Planner
Edmonton AB

Most people who have a will, have not revisited it for many years, and have not created an up-to-date ‘Record of Assets’. Those that don’t have a will but may have a good sense what assets they own, have not expressed how they wish them to be distributed through a will, and most likely do not have a Record of Assets.

As consumers we acquire items regularly and upgrade technology, vehicles etc., annually and we forget this changes the value of our estate. Our financial situation changes constantly with market fluctuations, with contributions to various savings accounts including RRSP, TFSA and with the many changes ongoing to pension plans. Mostly we struggle to prepare ourselves for retirement trying to understand how we will get funds out of the various retirement savings plans. It takes planning to know just what we have available today for our own use before we even think about what will happen in the eventuality of our death. On death all of the assets you own are considered to have been disposed of at a deemed fair market value. If there is a spouse or children, various provincial laws affect how these can be distributed. It is vital that individuals express their desires as to how they want their assets to be distributed or these applicable laws will do it for you.

All of these reasons speak to having an up-to-date Record of Assets.

A vital bit of information regarding the Record of Assets is to understand how the different kinds of assets are taxed on death. If you plan to distribute your estate among several beneficiaries, and especially if one or more will be a registered charity, then its very important to work from a current Record...
WHAT IS A RECORD OF ASSET?
CONTINUED FROM PAGE 3

of Assets and decide from a taxation viewpoint what would be the best assets to distribute to a child, a sibling, a charity, a business partner or whomever. A little advance financial planning can make a large difference in the tax consequences to the estate when the Estate’s tax return is filed.

While we are alive, certain investments are taxed differently. Investments that earn interest are taxed most heavily as all of the interest earned (100%) is considered taxable income. All capital assets are considered equity including shares in a corporation, patents and any real estate other than principal residence. A third type of asset is comprised of items such as dividends like bonds or dividend shares. These dividends are taxed separately as well and can have favourable tax treatment because of the dividend tax credit.

A Record of Assets of what is owned and what was the cost to buy them is essential in settling an estate and distributing the assets. On death the assets will have an adjusted cost base (ACB) and then be given a deemed fair market value. Any increase is a Capital Gain and 50% of the gain is reported as taxable income. In many cases this can become a very large number.

One of the most important tasks we can do in planning our estate is to update and put reasonable numbers beside the items on our Record of Assets including current fair market value, adjusted cost base figures and our plans for the distribution of the asset on death. This makes the executor’s job easier but most importantly it ensures your wishes are fulfilled.

TRUSTS & TAXES

In general, in Canada trusts are not a great vehicle for tax planning, because they are taxed on income at the highest marginal rates (29 percent federally, and at varying provincial rates). But they can be used, to our benefit, for income splitting to either or both of spouses or adult children, if those people are themselves in one of the lower tax brackets. (Note that I said adult children children 19 and over). Because of the “kiddie tax” passed in Canada in about 2000, it is generally not worthwhile income-splitting with minor children.)

INC Business Lawyers
www.incorporate.com
T 604-272-6960.

NON-TAXABLE ASSETS

- Primary residence
- Cash, GICs
- Furniture
- Personal items
- Vehicles (antiques are taxable if sold for more than the purchase value)
- Art and jewelry that are valued under $1,000
- LIFE INSURANCE Policies

TAXABLE ASSETS

- RRSP or RRIF – taxed at 40% upon death of the second spouse or a dependent adult
- Publicly Traded securities - 50% of the capital gain is reported as taxable income & taxes equal to 25% of the total capital gain
- Recreation properties - 50% of the capital gain is reported as taxable income and taxes equal to 25% of the total capital gain
- Income properties - 50% of the capital gain is reported as taxable income and taxes equal to 25% of the total capital gain
- Preferred shares in a privately owned business – on death these shares become part of the estate income and the income of the deceased and vary in tax
- Patents and intellectual property – if there was a base value established prior to death and if estate sells this for more than the established base value it triggers a capital gain, hence the estate will be taxed
- Appreciated art and jewelry – of value above $1,000
- Trusts (non-charitable trusts)
- GIC interest
- Bonds – dividends and other earnings
- TFSAs – treated much like a RRIF or appreciated securities
While the government offers us a great tax shelter when we are alive, the RRSP and later the RRIF become a serious tax burden, most specifically upon the death of the second spouse or a dependent adult. As a highly appreciated asset it is best to donate to charity as it eliminates the 40% tax levied against the full value of the RRSP or RRIF on death.

When considering the RRSP or the RRIF as a donation, the donor must specify this in the will and name the charity(s) as beneficiary(s).

Alternatively, a better way is to name the charity(s) as direct beneficiary(s) of the RRSP/RRIF by indicating this in writing to the financial institution managing the RRSP/RRIF. Upon the death of the last beneficiary [spouse or dependent adult] the gift will go directly to the charity(s) without having to go through probate. In addition a tax receipt will be issued immediately which can be applied on the last tax return. [From experience, I can tell you this makes a huge difference in administrative costs. This also speeds up the distribution of funds to other beneficiaries.]

Publicly Traded Securities and other appreciated investments – TSFAs, Bonds, etc.

Donors often designate a percentage of their estate to charities. Donating publicly traded securities or TSFAs is the next most tax beneficial way to expedite a gift from the estate. The executor or the administrator needs to be informed by the donor to transfer the securities directly to the charity(s) in the amount equaling the percentage of the assets designated in the will. It should be noted to the executor that transferring securities directly to charities will eliminate the capital gains taxes and the estate will receive a charitable tax receipt for the full value of the donated stock. The estate executor or the administrator need to understand why he/she should not sell the stock and then donate cash.
Many of us file our own taxes using new technology and software available to us online. Why not, we have filed the paper versions for years and now there is inexpensive software to file tax returns. How awesome!

Recently, I was challenged on the percentage of tax credits donors are able to claim when donating money to charity. Some say “well I only receive a 29% tax credit”, or “what do you mean, the provinces also include a tax credit for every donation?”. It seems that the awareness about the provincial tax credits on every donation is not very clear. This is due to the method provinces use to apply tax credits; in addition charitable tax credit percentages also vary from province to province. When calculated, sometimes the provincial tax credit is not as visible as the federal tax credit (29%). To further complicate matters the annual assessment notice or tax return only shows a summary of all tax credits; this line does not specify the charitable tax credits on the donations you made during the year.

This tip is written for the purpose to elevate awareness of the tax credit rules when donating charitable funds and to inform you about CRA resources available online. For your information we have included a table from the CRA website entitled Charitable donation tax credit rates. For a comprehensive website offering information to calculate charitable tax credits (including rules) steps to follow when completing a tax return and a charitable tax credit estimator, please visit www.cra-arc.gc.ca and search for “how do I calculate my charitable tax credits.”

Here are some important tips:

1. When donating under $200 annually, tax credits are calculated on a smaller percentage then when donating over $200 annually.

Nena Jocic-Andrejevic
Gift Planning Counsel, U of A Faculty of Engineering
2. The amount of the tax credit will depend on the following:
   a. The province where one lives and files tax returns,
   b. The federal tax credit for donations (29% for compounded annual donations above $200 and 15% for less than $200),
   c. The provincial tax credit for donations (the percentages vary from province to province for annual compounded donations above and below $200.)
   d. The manner in which provincial tax credits are applied vary from province to province.

3. When donating amounts that exceed 75% of annual income, tax credits can be claimed in the year of the donation and five (5) subsequent years. It is important to note that when this is not carried over properly from year to year, the maximum tax credits may not have been claimed or received.

4. Donating from the Estate – 100% of the donation, no matter the size of the donation is applied to the final tax return and the year prior to death.
   a. It is important to note that planning an estate gift is of great consequence because the government allows maximum tax credit (on death) and, depending on the size of estate and the donation, may eliminate the estate taxes.

5. Please note that one only receives maximum tax credits if an equal amount of taxes were paid.

   If you feel that by filing your own tax return you may not have claimed the maximum tax credits when giving charitable donations, we recommend that you see an accountant or check with the Canada Revenue Agency.

   You can also contact me at 780 492-8969 should you have any question in regards to this article.

---

Charitable donation tax credit rates

<table>
<thead>
<tr>
<th>Federal/Provinces/ Territories</th>
<th>2012 rates for eligible amount up to $200</th>
<th>2012 rates for eligible amount over $200</th>
<th>2011 rates for eligible amount up to $200</th>
<th>2011 rates for eligible amount over $200</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>15.00%</td>
<td>29.00%</td>
<td>15.00%</td>
<td>29.00%</td>
</tr>
<tr>
<td>AB</td>
<td>10.00%</td>
<td>21.00%</td>
<td>10.00%</td>
<td>21.00%</td>
</tr>
<tr>
<td>BC</td>
<td>5.06%</td>
<td>14.70%</td>
<td>5.06%</td>
<td>14.70%</td>
</tr>
<tr>
<td>MB</td>
<td>10.80%</td>
<td>17.40%</td>
<td>10.80%</td>
<td>17.40%</td>
</tr>
<tr>
<td>NB</td>
<td>9.10%</td>
<td>17.95%</td>
<td>9.10%</td>
<td>17.95%</td>
</tr>
<tr>
<td>NL</td>
<td>7.70%</td>
<td>13.30%</td>
<td>7.70%</td>
<td>13.30%</td>
</tr>
<tr>
<td>NS</td>
<td>8.79%</td>
<td>21.00%</td>
<td>8.79%</td>
<td>21.00%</td>
</tr>
<tr>
<td>NT</td>
<td>5.90%</td>
<td>14.05%</td>
<td>5.90%</td>
<td>14.05%</td>
</tr>
<tr>
<td>NU</td>
<td>4.00%</td>
<td>11.50%</td>
<td>4.00%</td>
<td>11.50%</td>
</tr>
<tr>
<td>ON</td>
<td>5.05%</td>
<td>11.16%</td>
<td>5.05%</td>
<td>11.16%</td>
</tr>
<tr>
<td>PE</td>
<td>9.80%</td>
<td>16.70%</td>
<td>9.80%</td>
<td>16.70%</td>
</tr>
<tr>
<td>QC</td>
<td>20.00%</td>
<td>24.00%</td>
<td>20.00%</td>
<td>24.00%</td>
</tr>
<tr>
<td>SK</td>
<td>11.00%</td>
<td>15.00%</td>
<td>11.00%</td>
<td>15.00%</td>
</tr>
<tr>
<td>YT</td>
<td>7.04%</td>
<td>12.76%</td>
<td>7.04%</td>
<td>12.76%</td>
</tr>
</tbody>
</table>

Source: CRA website
The advice rendered in this newsletter is general in nature. Each person should consult with qualified professionals to see what solutions might fit their specific circumstances.

For more information, contact:
Nena Jocic-Andrejevic, BA ’79, CFRE
Gift Planning Counsel
External Relations
E6-050 ETLC
Faculty of Engineering
University of Alberta
Edmonton, Alberta
T6G 2V4

T 780 492-8969
F 780 492-0500
C 780 983-5104
E nena.jocic-andrejevic@ualberta.ca

Calendar of Events

Estate Planning Seminars
The Faculty of Engineering at the University of Alberta hosts Estate Planning Seminars on variety of topics across Canada such as:

• The Importance of Having an Estate Plan and a Will
• How to use a Life Insurance Policy as an effective estate planning tool
• Tax Planning - What’s in my Estate?! - learning about creative ways to leaving more to your beneficiaries while leaving a legacy to the community
• Charitable Estate Planning for Business Owners and Preferred Share Holders

These seminars are free of charge and are presented by a variety of estate planning professionals and our Gift Planning Counsel.
A separate invitation will be sent to you informing you of the event.

Please watch for information on these or similar seminars in Edmonton, Calgary, Victoria, Vancouver, Kelowna, Ottawa, Toronto, and Montreal.

If you do not live in one of these cities and are interested in one of these topics, please call Nena Jocic-Andrejevic, at 780-492-8969.