TAX BENEFITS OF CHARITABLE GIVING

A well structured charitable donation can benefit the charity and achieve the tax savings for you and your family

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If you (the donor) contribute to a charity during your lifetime, you are likely to want to make some kind of lasting gift to that charity.

Charitable giving as a tax strategy

Charitable giving is a practice that the government promotes as a matter of public policy, in large part by way of favourable treatment under the Income Tax Act (Canada).

The structure and timing of a donation can result in significant tax credits and potential tax benefits. Particularly where growth assets, annuities and insurance products are used, a professionally planned donation will not only benefit the intended charities but will also filter back the benefits to the donor's heirs.

Creating a lasting legacy

You can state the intended purpose for the funds, but if the terms are too stringent, the charity may decline the contribution, or may be legally entitled to accept the funds and control them as it sees fit.

Where the donation to the charity is substantial, an endowment may be appropriate to carry out your wishes.

Consultation with the charity and with an informed professional advisor is prudent.

Maximizing the charitable credit

Contributions up to $200 entitle you to a federal tax credit at the lowest federal tax rate, while donations in excess of $200 entitle you to a federal tax credit at the top marginal federal tax rate of 33% against income over $205,843 (2018) indexed annually (for donations after 2015); otherwise a 29% federal tax rate.

Some strategies that will help you maximize the tax credit include:

- Use the carry forward provisions and use multiple years' donations on one year's tax return. Donations may be carried forward for 5 years if they are not claimed in the year they are made.
- Aggregate charitable donations of each spouse on one spouse's return

How much can be donated?

You can claim eligible donations to offset up to 75% of your net income. Upon your death, up to 100% of your net income can be offset by charitable donations, and any excess can offset up to 100% of your net income in the year prior to your death.

In addition, for gifts of property that may have capital gains, special rules are in place to effectively neutralize capital gains tax and possibly result in a net tax benefit to you.

What can be donated?

While cash is the common and obvious form of donation, alternative forms may have preferred tax and legal effects.

Capital property

Land, buildings and other fixed assets can be contributed to a charity. A special tax credit can offset tax exposure due to capital gains.

Investments

Donation of qualified securities may allow you to eliminate the tax on the capital gains.

Annuities

For an agreed capital contribution, a charity will pay you a fixed annual sum for a number of years or for your life.

Life insurance policies

An insurance policy can provide either current or future tax benefits to you, depending on who owns the policy and whether the estate or charity is the named beneficiary.

RRSPs and other pension plans

A charity can be named as a beneficiary. Care must be taken to be clear whether the donation is before or after the tax on the pension.

Remainder interest

By donating a remainder interest by trust or directly, you may “have your cake and eat it, too” because you may be able to continue to enjoy the use of your property for life and be assured that it goes to the charity upon your death.

Where can the donation go?

In addition to traditional charities for religious, educational and social objects, other potential donees might include:

- Amateur athletic groups
- Housing corporations
- Universities and colleges
- Government agencies
- Museums
- Qualified foreign charities
- United Nations’ agencies

A registered charity as per the Income Tax Act is an organization established and operated for charitable purposes, it must devote its resources to charitable activities, and can issue official donation receipts. The charity must be resident in Canada, and cannot use its income to benefit its members.

In order to determine if a charity is registered with the CRA, please visit: www.canada.ca or a list of charities and other qualified donees which comply with the definitions set out in the Income Tax Act (Canada).

What are the limitations?

Knowing what can't be done can save you a significant amount of effort and cost. Donations that do not qualify:

- Gifts to a person directly
- Goods with no commercial value
- Goods already expensed by a business
- Payments under which you received cash or other benefits in return exceeding 80% of the fair market value of the gift.
- Otherwise unqualified charities

About donating artwork

CRA has curtailed art donation arrangements where the donor buys artwork and donates it at a significantly higher appraised value. Consult with an independent tax or legal advisor before entering into such an arrangement.

While the charity itself must always be the primary determinant in the giving decision, you should carefully review the tax benefits.

Want to learn more?

Your financial advisor can provide you with planned giving considerations best suited to your situation.

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