Education Library

Guide to Charitable Giving

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Supporting your favourite charity speaks volumes about you and the values that are important to your family. Whether it is planning for a one time gift or leaving a family legacy, developing a long term charitable giving strategy is an integral part of your financial plan.

In Canada, we have the added benefit of incentives in the tax system that make giving more cost effective. Using many of the available tax strategies described below, you can ensure that your charitable donations are structured to receive the best tax treatment.

Highlights

- Donations of certain capital property may be more tax-efficient than donating cash
- Unused charitable donations can be carried forward for five years
- Spouses can combine charitable donations and claim them on one tax return
- Gifting through your will may be a viable alternative to donating during your lifetime
- Many strategies exist to maximize your giving, including gifts of life insurance, registered plans and employee stock options
- Certain tax shelter arrangements may limit your charitable giving

Types of Charities

Charities may be divided into two main categories. Charitable Organizations and Charitable Foundations (Public and Private Foundations).

Donor advised funds (a type of public foundation) and private foundations have grown considerably in recent years as a way to provide a legacy to help pass on your family's values and beliefs to future generations. For further information on these types of charities, please see our articles "Richardson GMP Charitable Giving Program" and "Private Foundations".

General Rules

To promote and encourage charitable giving, amounts donated in excess of $200 can reduce your taxes between 40% to 50% of the donation.

Tip: Administratively, Canada Revenue Agency (CRA) allows either spouse to claim a donation, therefore we recommend you claim all donations on one spouse's return to better utilize the tax credit.

Where you have made charitable donations in excess of the annual donation limit you may carry forward the excess amount and claim this amount in any of the following five years, subject to the annual donation limits outlined below.

Annual Donation Limit Eligible

Type of donation	Maximum donation allowed in year of donation
Cash	75% of net income
Capital property	75% of net income + 25% of taxable capital gain realized on transfer of capital property to charitable organization
Certified cultural and ecological properties	100% of net income
Donations in year of death	100% of net income + carryback to previous year with limit of 100% of net income of previous year

Donations on Death

Many of us do not have the resources to make significant donations during our lifetime so instead can plan to donate on our death. If you choose to do so, the donation limit will be increased from 75% of your net income to 100% of net income in the year of death with a one year carryback which is also subject to the 100% limit. In order to ensure that your estate receives the donation receipt on your death, your will should specify an amount as well as a specific charity you would like the donation to benefit.

Tax effective ways to give

Gifts of Capital Property

Rather than donating cash it may be beneficial to make donations "in kind". When you donate capital property you can elect to value the gift at any amount up to its fair market value. The donation creates a deemed disposition for tax purposes and the amount claimed as a donation will be used to calculate any taxable capital gain realized. Normally, 50% of a capital gain is taxable, however, where you make donations of qualifying gifts[1], including certain publicly traded stocks and securities, to an eligible charity, any capital gain realized will not be subject to tax. In addition, your annual charitable donation limit will increase by 25% of the capital gain realized on the donation of capital property.

Therefore, you will realize greater tax savings by donating these investments directly as opposed to selling investments and donating the cash proceeds. Where a charity does not have the resources to receive capital property there may be instances where another charitable organization will facilitate these donations for a nominal fee.

Gifts of Flow Through Shares

Flow-through shares and flow-through limited partnership (FTLP) units are investments in Canadian oil and gas, mining or renewable energy companies that provide special tax benefits. Investors generally are able to deduct the entire cost of the shares from their net income, thereby reducing the adjusted cost base of the investment to zero. When the investment is sold, the entire value of the shares is treated as a capital gain.

The donation of a flow-through share "in kind" to a registered charity has similar treatment to the donation of other qualified capital property mentioned above, however, for flow-through investments made after March 22, 2011, CRA has restricted the application of zero capital gains tax to the extent the share has increased in value beyond the original purchase price of the share.

Gifts of Employee Stock Options

If you are a member of your employer's stock option plan, making a qualifying charitable donation can reduce your taxes. Normally tax is payable on 50% of the employment benefit which is calculated as the difference between the fair market value on the date you exercise the option and the price you pay to exercise the option. If you acquire publicly traded securities with employee stock options, you can donate the shares "in kind" to a qualifying charitable organization and receive a special deduction that will eliminate this tax. To be eligible for the deduction, the shares must be donated within the year and within 30 days of the options being exercised.

1 Shares, bonds, warrants and options, if listed on a prescribed exchange; Mutual fund shares and units and segregated fund units; and Prescribed debt obligations.

You may also be able to eliminate this tax if the total cash proceeds from the sale of the securities acquired through the stock option plan are donated. To qualify for this deduction, you must direct the appointed broker on the transaction to sell the securities immediately and donate all of the proceeds to a qualifying charity. The tax deduction will be equal to the amount that would have been deductible had the securities been donated as described above (if not all the proceeds are donated it will be prorated to reflect that actual donation made).

Gifts of Certified Cultural and Ecological Properties

In addition to the tax incentives noted above, where you donate certified cultural properties or ecological properties such as art and ecologically sensitive land, the normal donation limit of 75% of net income is increased to 100% of net income with the same five year carryforward limit. In order to take advantage of this provision, the Canadian Cultural Property Export Review Board must certify that the property meets the necessary conditions.

For gifts of work of art to a Quebec museum, a tax credit is allowed based on 125% of the fair market value of the gift (or of the deemed fair market value where a lesser value is elected). Limitations apply with respect to donations of works of art not used by the donee in its primary mission unless the donee is exempt from this limitation.

Gifts of Life Insurance

Gifts of life insurance can be accomplished in two ways:

A. **The charity becomes the owner and beneficiary of the policy**

If a charity is named the owner and beneficiary of your life insurance policy, annual premiums paid by you are eligible for the charitable donation tax credit.

This arrangement can be set up from the inception of a new life insurance policy or you can transfer ownership of an existing life insurance policy to the charity of your choice. When ownership is transferred on a policy with cash values, you are entitled to a charitable tax credit equal to the fair market value of the policy on the date of transfer. One thing to remember is that the transfer may create taxable income for the donor.

B. **Name the charity as the beneficiary of the policy**

Another way to gift a life insurance policy is to name the charity as the beneficiary or designate the bequest in your will. In both cases, your estate will receive a charitable donation receipt equivalent to the amount of the life insurance death benefit. You should be careful to ensure that the estate will be able to fully utilize the donation tax credit up to 100% of net income in the year of death and previous tax year. In this scenario, annual premiums paid on the policy are not eligible for the donation tax credit.

Gifts of RRSPs/RRIFs

The value of your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) is fully taxable on your death unless you have designated a qualified beneficiary (a spouse or dependent child, for example). In all provinces except Quebec, you can name a charity as the beneficiary of your retirement plan (or a portion of it) directly on plan documents. This donation occurs outside of your estate so it is also an effective way to reduce probate fees in provinces where they apply. To ensure that your wishes are clear, it is a good idea to make this provision in your will as well as in the registered plan documents.

For residents of Quebec, a similar result can be achieved by simply making the charitable bequest in the will. In both situations, your estate will receive a donation receipt for the value of the plan on your death to reduce taxes payable.

Tax Shelter Donation Arrangements

The Income Tax Act restricts the tax benefits associated with certain “buy-low, donate-high” charitable donations by limiting the value of a tax receipt to the cost of the property where the property has been donated within three years of acquiring the property.

Conclusion

How you structure your charitable giving strategy may significantly impact the amount you give. If you plan on donating, careful planning today can ensure that you maximize your giving by making the best use of the Canadian income tax incentives available.

Tax & Estate Planning

As an individual investor or a business owner you have unique objectives and priorities that need to be considered. At Richardson GMP, your Investment Advisor collaborates with our in-house Tax & Estate Planning professionals to deliver customized wealth management solutions designed to address tax, estate, insurance, philanthropic and succession needs.

Our approach. Our expertise. Our experience. **Our difference.**