Andrea Agnoloni

Give and You Will Receive!

We Canadians are a very generous group.

We care about our social and cultural background; we care about our community. As a result, we donate time by volunteering with nonprofit organizations and we donate money to charitable organizations to help with their missions.

Lately, many of us have been raising awareness and funds for the ALS disease; we have been enjoying pouring a bucket full of icewater on our heads, nominating a bunch of friends to do the same, and donating money to the cause of #icebucketchallenge.

In addition to getting refreshed with the water and receiving a few seconds of fame on the Internet, by donating we can get tax credits to reduce our overall tax bill.

The general rule says that to receive the tax benefit, the gift to a charitable organization must be a voluntary transfer of money or property for which the donor receives no consideration.

The gift can be cash, a gift in-kind like investment securities or real estate, a right to future payments like life insurance proceeds, certified cultural property like works of art and artifacts, or a gift of ecologically sensitive land that is considered important to the preservation of the environmental heritage.

To receive a tax credit, the charitable organization must issue an official tax receipt and that organization must be registered with CRA.

- Generally, you can claim a federal tax credit of 15% of the donation amount on the first $200 you give.
- For any amounts over $200, the federal tax credit increases to 29%.
- And when the BC provincial tax credit is considered, too, the combined tax credit can be up to the highest marginal tax rate of 43.70%.

So, for example, a donation of $10,000 can generate a total tax credit of approximately $4370.

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The Federal 2013 Budget introduced a temporary First-time Donor's Super Credit (FDSC), available to an individual if neither the individual nor the individual's spouse or common-law partner has claimed the Charitable Donation Tax Credit (CDTC) in any of the 5 preceding taxation years.

- The FDSC will provide an additional 25% tax credit for a first-time donor on up to $1000 of donations.
- That will provide the first-time donor with a 40% federal tax credit for donations of $200 or less and a 54% federal credit for donations over $200 but not exceeding $1000. Only donations of money will qualify for the FDSC.
- In a single year, the maximum amount of charitable donations you can claim cannot be higher than 75% of your net income, but any unclaimed amounts can be carried forward for up to 5 years.
- The 75% limitation does not apply to gifts made in the year of death. The limit is increased to 100% in the year of death and in the preceding year.

If you donate certified cultural property or ecologically sensitive land, the claim is not limited to a percentage of your net income.

Donating Property

If you donate publicly traded securities that include a share, debt obligation, or mutual funds, you may receive a better tax credit than if you sell the shares and donate the cash received from the sale.

If you sold the shares, you could trigger a capital gain on the sale and pay tax at the appropriate marginal tax rate. Then you will receive a tax credit on the value of the donation.

If you were to transfer the shares directly to the charitable organization, however, note that the tax on the capital gain has been eliminated by Revenue Canada for donations made after May 1, 2006.

The fair market value of the donated security at the time of transfer would be the value of the donation.

If you triggered a capital loss from the donation of securities, the loss can still be claimed.

In addition to publicly traded securities, capital gains realized on the donation of ecologically sensitive land or on the donation of cultural property are not subject to tax.

If you donate capital property like real estate, the capital gain derived from the donation is taxed. Generally, the donation tax credit will more than offset the tax. If that is not the case, you are allowed to elect an amount between the cost of the property and the market value of the donated property to be used as proceeds of disposition and the amount of the gift.

- When you donate capital property, the 75% limitation of net income is increased by 25% of the taxable capital gain.

Charitable Planned Giving

Charitable giving is usually tailored to lifestyle and family obligations. Retirees can often afford to be more generous than younger people. With proper planning, you can contribute to your favourite charity and reduce your taxes now or later for your estate.

Cash Gifts

This is the most popular and easiest form of charitable giving. To maximize the tax credit, spouses may be able to pool donation receipts and report them on one tax return. You can also elect to carry forward donations made and make one combined claim to get the maximum credit for gifts above $200.

Gifts in Kind

A gift-in kind is a gift of tangible property instead of cash—securities, real estate, certified cultural property, and ecologically sensitive land.

Property of little value does not qualify for the credit, for example, used clothing. Also the donation of personal services does not qualify for the credit. Donation of supplies or services by a business does not qualify for the credit, unless the supply or service is invoiced and the payment is received by way of issuance of a donation receipt.

…there are many ways to dedicate a portion of your wealth to charity and with proper planning, the charitable organization can benefit from your generosity and you can enjoy the tax benefits.

Life Insurance Policy

Another form of donation is to donate an insurance policy on your life. You may have an existing policy that you do not need but wish to transfer to a charity or you can buy one specifically for donation.

If an existing policy is donated, you will receive a donation receipt for the cash surrender value and any accumulated dividends or interest, less outstanding policy loans. The transfer of the policy is considered a disposition and may trigger a capital gain calculated as the difference between the surrender value and the cost of the plan.

You will also receive a donation credit in future years for any premiums you pay to keep the policy.

You can buy a new policy and designate the charity as the beneficiary but retain ownership of the policy. In that case, you are not allowed to receive a donation credit on the premiums paid but you will receive a full donation credit based on the death benefit received by the charity. The credit can be claimed on the year-of-death tax return.

If the policy is owned by the individual, the beneficiary can be changed in the future. If the policy is owned by the charity, there is no such flexibility.

RRSP/RRIF

You can designate a charity as the beneficiary of your RRSP/RRIF and qualify for the donation credit. To qualify, the transfer of the RRSP/RRIF should occur no later than 36 months after the individual's death. At time of death, the full value of the RRSP/RRIF is included in income but if the charity is the beneficiary, a charitable donation equal to the value of the RRSP/RRIF is received. That will potentially offset most of the taxes due on the value of the RRSP/RRIF.

Other options of planned giving are in the form of charitable gift annuities, establishing endowment funds, private charitable foundations, and charitable gift funds. Please consult with your financial advisor because those techniques are more advanced and subject to complex rules.

Bequests under a Will

When donations are made after death, the donation credit can be used only by the estate and if the estate has no tax or little tax to pay, the credit would not generate the desired tax benefit.

If you have large RRIF and holdings of capital property, the tax on the year-of-death tax return can be very large. When a bequest is made in the last testament, it will result in the donation tax credit to be used in the final tax return to help offset the tax in the year of death.

As indicated, there are many ways to dedicate a portion of your wealth to charity and with proper planning, the charitable organization can benefit from your generosity and you can enjoy the tax benefits.

Please consult a financial professional to discuss your specific situation. ▲

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