The Giving Season is Upon Us: Charitable Considerations

Many Canadians make charitable donations of one sort or another. We are good at giving: according to the latest Statistics Canada data, more than 40 percent of taxpayers with income over $80,000 donated to charity.[1] For many of us, charitable giving is a way to support causes important to us and can often contribute to leaving a lasting legacy. Some engage in philanthropic efforts, which involve a more strategic and long-term planning approach to charitable giving.

There are a variety of ways to make contributions, and some may even benefit you at the same time as the recipient organization by offering various tax benefits. If you are looking to engage in charitable giving this season, here are just a handful of options to consider:

Cash Donations — Any donation to an eligible registered charity[2] results in a tax receipt which will entitle the donor to a tax credit. The federal credit is 15 percent of the first $200 donated per year and 29 percent beyond this threshold (or 33 percent, to the extent that an individual has taxable income that is taxed at the federal rate of 33 percent[3]). After taking provincial tax into account, the total benefit may exceed 40 to 50 percent, depending on province of residence. This credit can be pooled with your spouse to be claimed by whichever spouse can use it to their best advantage. Moreover, donations can be carried forward for up to five years. Charitable donations are limited to 75 percent of net income in any year except upon death. Donations of up to 100 percent of net income are allowed for tax purposes in the year of death and the year preceding.

Donating Appreciated Securities — If you donate stocks or mutual fund units that have appreciated in value, there is potentially a further benefit. Gifting publicly-traded securities with accrued capital gains to a registered charity not only entitles you to a tax receipt for the fair market value, but also eliminates the associated capital gains tax. If you are considering this option for the 2021 tax year, please let us know well in advance of the year end as charitable donations must be made before December 31st and settlement times may vary.

In-Kind Gifts — You may consider donating personal property which a charity can then convert to cash. For example, by donating a used car to charity, you may be eligible to receive a tax receipt for its appraised value. Similarly, you may be able to donate a legitimate work of art to a public gallery. Special tax rules may apply to in-kind gifts so check with a professional tax advisor on how to best handle the situation.

Private Foundations — Individuals with more substantial assets may consider establishing a private foundation as a vehicle for charitable activities. Money paid into the foundation may result in an immediate tax benefit while the foundation can direct future gifts as it sees fit. Foundations are often seen as a way to involve multiple generations in the philanthropic process. However, the ongoing cost of the foundation may be a disadvantage.

Donor-Advised Funds or Community Foundations — Giving through a donor-advised fund or a community foundation may be a cost-efficient alternative to establishing a private foundation. They can eliminate certain legal and administrative costs, while still allowing you to direct donations and achieve tax benefits. The benefit of a donor-advised fund is that the contribution will be deductible in the year it is made, but funds can be distributed in future years. The donor may also be able to direct how funds are invested by the charity until their distribution.

Life Insurance — Insurance may be another vehicle that can be used to support a giving strategy. In some cases, it may even provide benefits while you are alive. For example, you could have a charitable organization purchase an insurance policy on your life while you donate the cash annually to pay the premiums. This way, you would receive a tax credit for the annual cash donated. If you wish to leave a legacy, you may consider owning a life insurance policy and naming the charity as the beneficiary, or donating appreciated shares to fund an insurance policy. There are a variety of tax-efficient ways to use insurance to support your charitable endeavours.

GET MORE INFORMATION

These are just a handful of ideas. We can offer perspectives on these or other options and have the resources here to support these types of endeavours. For those wishing to make substantial gifts, we can help to provide support in building a philanthropic plan that allows for strategic giving into the future. Planning ahead can help to maximize the potential tax benefits, such as timing your charitable donations to use the maximum available tax credits. For example, making a charitable gift at the time you sell your business or when you exercise stock options may help to reduce your resulting tax liability. Charitable giving can also be a wonderful way of creating a legacy, but the options and their outcomes in estate planning can be complex. Where major gifts are concerned, we recommend seeking independent professional advice. If you need assistance, or would like perspectives on charitable giving considerations, please don't hesitate to get in touch.

1.Based on 2019 tax return data: www150.statcan.gc.ca/n1/daily-quotidien/210308/t004c-eng.htm; 2. https://www.canada.ca/en/revenue-agency/services/charities-giving/other-organizations-that-issue-donation-receipts-qualified-donees.html; 3. https://www.canada.ca/en/revenue-agency/services/charities-giving/giving-charity-information-donors/claiming-charitable-tax-credits/amended-legislation-charitable-donation-tax-credit.html