



Guide to Charitable Giving

Introduction

As part of your charitable giving strategy you will want to consider the tax implications to ensure that you structure your donations in the most cost-effective way. This article has been developed to provide assistance to charitable donors to ensure that their charitable giving strategy makes the best use of the incentives available in the Canadian tax system. This report will provide you with an overview of the tax implications of donating to your favourite charities, both in your lifetime and in your Will, so that you may increase the amount of taxes you save while providing generous support to the charity of your choice.

Highlights

The highlights below will be discussed in more detail in the pages that follow.

Annual Donation Limit Eligible for the Donation Tax Credit

Type of donation	Maximum donation creditable in year of donation
Cash	75% of net income
Capital Property (including Qualifying 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 of qualifying capital property can be done on a tax-free basis,
- Unused charitable donations can be carried forward for five years to offset taxes of those years, subject to the annual donation limits noted above,
- Spouses are allowed to combine charitable donations and claim them on one tax return, and
- Recently proposed legislation limits the availability of tax shelter donation arrangements.

This guide has been prepared to assist you in understanding the income tax consequences of making eligible donations as part of your charitable giving strategy. With a proper understanding of the tax consequences you can structure your charitable giving in the most cost-effective manner. How you structure your charitable giving strategy may significantly impact the amount you give.

For a more detailed analysis please see Canada Revenue Agency's Interpretation Bulletin **110R3 – Gifts and Official Donation Receipts** at the following website <http://www.cra-arc.gc.ca/E/pub/tp/it110r3/README.html>.

Types of Charities

Charities may be categorized into two main categories: Charitable Organizations and Charitable Foundations (Public and Private Foundations). For purposes of this article we will concentrate on donations made to Charitable Organizations. Please watch for future articles where we will further explore donations made to Public and Private Foundations.

General Rules

In general, you are eligible for a non-refundable tax credit on donations to charities¹, provided that you have a receipt containing the charity registration number. The maximum credit allowable is 75% of your net income for tax purposes. To promote and encourage charitable giving, the income tax system provides the donor with a two-tier tax credit. The first \$200 claimed in a year provides a federal tax credit at the lowest marginal tax rate and any amount claimed above the \$200 amount provides for a 29% federal tax credit. Depending on your province of residence the combined federal and provincial tax credit on amounts in excess of \$200 ranges from approximately 40% to 50% of the donation.

Tip: Administratively, 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 above.

Donations on Death

Many of us do not have the resources to make significant donations during our lifetime so instead we may choose 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 you receive the donation on your death you should specify an amount as well as a specific charity you would like the donation to benefit.

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 amount claimed as a donation will also be considered proceeds of disposition for purposes of calculating the capital gain/loss on the deemed disposition of the property. For donations made after October 17, 2000, 50% of the capital gain realized on the deemed disposition will be taxable. In addition, your donation limit will consist of 75% of your net income plus an additional 25% of the taxable capital gain realized on the donation of the capital property. Special rules relating to the donation of certain qualifying capital property are discussed further below.

For a more detailed analysis please see Canada Revenue Agency's Interpretation Bulletin **288R2 – Gifts of Capital Properties to a Charity and Others** at the following website <http://www.cra-arc.gc.ca/E/pub/tp/it288r2/README.html>

¹ Charities include donations to:

- Registered Canadian Amateur Athletic Associations;
- Registered charities (including Canadian Universities and Colleges);
- Certain Tax-Exempt Housing Corporations;
- United Nations and Related Agencies;
- Canadian or Provincial Governments, Crown Foundations, Municipalities; and
- Certain Foreign Universities.



Gifts of Qualifying Capital Property

In addition to the discussion above regarding gifts of capital property, where you make qualifying gifts² to a charity, other than gifts to Private Foundations, after October 17, 2000, only 25% of the capital gain realized on the donation is considered taxable and for donations made on or after May 2, 2006 any capital gain realized will not be subject to tax. Therefore, you will realize greater tax savings by donating these investments directly to the charity as opposed to selling these investments and donating the cash proceeds.

Where a charity does not have the resources to receive capital property as a donation, there may be instances where another charitable organization will facilitate these donations. In these instances the gift is made to a facilitating charity who, for a very nominal fee, disposes of the capital property and provides a cash gift pursuant to the donor's instructions. If you would like more information on this process please contact the Family Wealth Planning Group.

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.

Example

To better illustrate the tax implications of donating certain types of property we have outlined the tax effects of donating various types of property using a simplified example with the following facts:

In 2006 Mr. Smith donated \$200,000 to an eligible charity. His 2006 net income consisted of the following:

Interest	\$ 175,000
Capital Gains:	
• Regular	60,000
• Donated Capital Property (\$200,000 proceeds - \$110,000 cost)	90,000
Total Capital Gains	\$ 150,000

Please note that for purposes of this illustration we will assume that when capital property of \$200,000 is donated a capital gain of \$90,000 is generated. Where cash is donated we will assume that the property was sold first at a capital gain of \$90,000 and the cash proceeds were donated.

Please see the table on the following page which outlines the after-tax effects of donating various types of property.

² Shares, bonds, warrants and options, if listed on a prescribed exchange;
Mutual fund shares and units and segregated fund units; and
Prescribed debt obligations.

Property donated	Cash	Regular Capital Property	Qualified Capital Property	Cultural Capital Property
Net Income:				
Interest	175,000	175,000	175,000	175,000
Capital Gains:				
Regular Property	150,000	60,000	60,000	60,000
Inclusion Rate	50%	50%	50%	50%
Taxable Capital Gain	75,000	30,000	30,000	30,000
Donated Property		90,000	90,000	90,000
Inclusion Rate		50%	0%	50%
Taxable Capital Gain	0	45,000	0	45,000
Net Income	250,000	250,000	205,000	250,000
Tax Payable before donation	103,435	103,435	78,800	103,435
Donation	200,000	200,000	200,000	200,000
Donation Limit ¹	187,500	198,750	153,750	250,000
Excess Donation	12,500	1,250	46,250	-
Donation Tax Credit	86,961	92,180	71,340	92,761
Current Year Taxes Payable	16,474	11,256	7,460	10,674
Approximate Value of Excess Donation claimed in Future Years ²	5,800	582	21,460	-
Net Overall Taxes	10,674	10,674	(14,000)	10,674

Please note that the tax rates used above are for information purposes only and that the amounts will differ depending upon your province of residence

¹ Please see the table on the first page of this article which outlines the various annual donation limits eligible for the donation tax credit.

² The value of the donation claimed in future years is the amount of the donation carried forward (donation made in excess of the current year's limit) multiplied by the combined federal/provincial donation tax credit rates.

The results above show that the after-tax effects of donating qualified capital property produce significant tax savings compared to the other alternatives. In addition, donating the various types of property will result in different donation limits which will impact when you may be able to utilize the donation tax credit to offset taxes otherwise payable.

Gifts of Life Insurance

Gifts of Life Insurance may be accomplished in one of two ways:

- The charity can be made the owner and beneficiary of a life insurance policy on which you pay the premiums. This can either be a new policy or alternatively you can transfer ownership of a policy you already own to a charity. If you transfer the ownership of the policy to the charity and the policy has cash values you are entitled to a charitable tax credit equal to the Fair Market Value of the policy. One thing to remember is that the transfer may also result in an income inclusion for the donor. In addition, where you continue to pay the annual life insurance premiums, you are entitled to a charitable tax credit for those premiums.
- Alternatively, gifting of an insurance policy to a charity may be accomplished either by naming the charity as the beneficiary of the policy or designating the bequest in your will. Both will result in a charitable donation receipt equivalent to the amount of the life insurance death benefit. Care must be used to ensure that the estate will be able to fully utilize the donation receipt. You would not receive a tax credit for the premiums as they were paid during your lifetime.

For a more detailed analysis please see CRA's Interpretation Bulletin **244R3 Gifts by Individuals of Life Insurance Policies as Charitable Donations** at the following website <http://www.cra-arc.gc.ca/E/pub/tp/it244r3/README.html>

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.

Summary

If you plan on donating, careful planning can ensure that you maximize your giving by making the best use of the Canadian income tax incentives available to you.

Family Wealth Planning Group

Richardson Partners Financial Limited is a full service wealth management organization that understands a client's financial requirements may be in-depth and multifaceted. Often, clients have situations that may be complex and go beyond financial advice. Through our Family Wealth Planning Group, Investment Advisors have access to a multi-disciplinary group of professionals including accountants, lawyers and financial planners. This expertise in the areas of tax, estate, trust, charitable giving, and succession planning ensures that solutions are comprehensive and customized for each client's unique needs.

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