TAX BENEFITS OF CHARITABLE GIVING

A well-structured charitable donation can benefit the charity you choose and lead to the best-possible tax savings for you and your family.

There are many reasons to give to charity. First and foremost, charitable giving helps many organizations provide support services that contribute to the quality of life of untold Canadians. But a close second is the tax credit. Charitable giving — when you, as a donor, make a lasting gift to a charity — goes even further, allowing you to claim up to 100% of your net income as the limit for charitable contributions in the year of your death and in the prior year as a carryback. Because Canada Revenue Agency has become much more stringent about charitable deductions, it pays to know about the tax benefits of giving to charity.
Here are a few pointers...

Charitable giving as a tax strategy

Charitable giving is a practice that the government promotes as a matter of public policy, largely through favourable treatment under the *Income Tax Act*.

The structure and timing of a donation can result in significant tax credits and potential tax benefits. A professionally planned donation, particularly where growth assets, annuities and insurance products come into play, will not only benefit your chosen charities but will also lead to benefits for your heirs.

Creating a lasting legacy

While you can state the intended purpose for the funds you donate, the charity you choose may decline the contribution, or may be legally entitled to accept the funds and control them as it sees fit — if your donation terms are too stringent.

When your contribution is substantial, an endowment may be more appropriate for carrying out your wishes.

Discussing your contribution with your chosen charity and an informed professional advisor is the prudent route to take.

Maximizing the charitable credit

Contributions up to $200 entitle you to a credit at the lowest federal tax rate. Donations in excess of $200 entitle you to a credit at the highest rate. Here are some strategies that will help you maximize the credit:

- Carry-forward all donations from two or more years onto a single tax return
- Combine the charitable donations of your spouse or common-law partner (collectively known as spouse) and yours on one return

How much can be contributed?

You can contribute a sufficient amount to offset up to 75% of your net income. Upon your death, up to 100% can be offset, and any excess can offset up to 100% 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.

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What can be donated?

While cash is the common and most obvious form of donation, other ways may have better tax and legal consequences:

1. Capital property – Land, buildings and other fixed assets can be contributed to a charity. A special tax rule can offset tax exposure due to capital gains.
2. Investments – Donation of qualified securities may allow you to eliminate the tax on the capital gains.
3. Annuities – For an agreed capital contribution, a charity will pay you a fixed annual sum for a number of years or for your lifetime.
4. 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.
5. 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.
6. Remainder interest – Donating a remainder by trust or directly allows you to "have your cake and eat it, too" since you will 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 religious, educational and social charities, other potential candidates include the following:

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

What are the limitations?

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

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

About donating artwork

CRA has curtailed "art" donations (when a 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 factor in the giving decision, you should carefully review the tax benefits.

Want to learn more?

Your financial advisor can work with Empire Life's tax and estate planning professionals to provide you with planned giving considerations best suited to your situation.