

# COLLINS BARROW | *charitable donations*



**Collins Barrow**

Chartered Accountants & Consultants



## About Charitable Donations

Donating to a charity, hospital or educational institution can be a very rewarding experience. Charitable donations often provide you with a sense of community involvement and the comfort of knowing that your efforts are helping to support various groups in need throughout our society. The federal and provincial tax incentives that are in place for charitable donations are there to facilitate your support of your favourite charitable groups. There are, however, a number of things to consider prior to making your donation.

It is the responsibility of you, the donor, to ensure that the recipient of the contribution is a qualified donee. The following is a summary of qualified recipients:

- Canadian Registered Charities
- Certain universities outside of Canada
- Registered Canadian amateur athletic associations
- Tax exempt housing corporations resident in Canada that only provide low-cost housing for seniors
- Canadian municipalities
- Certain gifts to Canada, a province or a territory
- Registered national arts service organizations
- The United Nations or its agencies
- Charitable organizations outside of Canada to which the Government of Canada made a donation in the tax year, or the previous tax year

As a donor, there are many options available to you when considering charitable contributions. By definition, a charitable donation is a *voluntary transfer of money or property without any expectation of return*. This contribution may take the form of cash or a *gift in kind* such as securities, real estate, certified cultural property, life insurance policies and residual property. The determination of the value of the tax credit for a gift in kind is generally based upon the fair market value at the time of disposition. In the case of capital property, the individual may choose a value for the gift between its cost and the fair market value at the time of donation. This process may result in the avoidance or reduction of a large capital gain. However, it is important to not that a donation of services does not qualify for tax credits.

Each form of contribution has different implications and results for both you and the charitable organization. Cash donations are often viewed as the most favourable form of contribution. However, the federal government has cut in half any capital gains owed on donations of *qualifying securities*, creating an attractive route for contribution. A qualifying security is generally a security listed on a stock exchange. Property other than a *qualifying securities* results in a higher tax cost to the individual since the full capital gain tax is payable by the donor. Please see the section entitled *Gifts of Qualifying Securities* on page 3 for more information.



## Individual Charitable Donations

An individual is generally entitled to donate up to 75% of their net income for a given tax year while still qualifying for the credit. Donations in excess of the 75% limit are eligible for a carry-forward for use in the next five years.

Charitable contributions made by individuals during 2001 are entitled to a Federal tax credit of 16% on the first \$200 and 29% for donations in excess of \$200. The following table outlines the 2001 credit rates for donations over \$200 for each Canadian province, assuming that the highest provincial income surtaxes in these provinces apply.

	Federal Tax Credit (Donations over \$200)	Federal and Provincial Credit	After- tax cost \$1,000 Donation
British Columbia	19.70%	48.7%	\$513.00
Alberta	12.75%	41.8%	\$582.00
Saskatchewan	16.00%	45.0%	\$550.00
Manitoba	17.50%	46.5%	\$535.00
Ontario	11.16%	46.4%	\$536.00
Quebec	25.00%	49.2%	\$508.00
New Brunswick	16.52%	46.8%	\$532.00
Nova Scotia	16.67%	47.3%	\$527.00
Prince Edward Island	16.70%	47.4%	\$526.00
Newfoundland	18.02%	48.6%	\$514.00

Every individual is unique with respect to his or her finances. Depending on your current financial situation and the type of property you own, a Collins Barrow advisor may have other options available including the use of annuities and trusts to further enhance your charitable donation benefits.



## Corporate Charitable Donations

Corporations have the opportunity to make charitable contributions as well. When making a gift to a qualified charity, the corporation may deduct the contribution from its taxable income. Similar to individual contributions, corporations are generally bound to an upside contribution limit of 75% of net income for the year. When a corporation makes a contribution in order to earn business income, the gift may qualify as a business deduction.

## Gifting of Qualifying Securities

When contributing to a charity, it may be prudent to consider a gift of qualifying securities as opposed to a cash donation. A qualifying security includes shares listed on stock exchanges and mutual funds. This is particularly true when you are taxed at the top marginal rate and you have donated in excess of \$200 throughout the year.

The federal government has reduced the capital gain inclusion rate for securities donated directly to charities to 25%. Under the scenario where you sell the securities and donate the proceeds to a charity, the capital gain inclusion rate would be 50%. The following table outlines the net after-tax cost of a charitable contribution resulting from a qualifying security and assumes a marginal tax rate of 50%.

	Donating Cash Proceeds	Donating Security Directly
Value of Donation (1)	\$10,000	\$10,000
Cost Base (2)	\$6,000	\$6,000
Capital Gain (3 = 1 - 2)	\$4,000	\$4,000
Capital Gain Inclusion Rate (4)	50%	25%
Taxable Capital Gain (5 = 3 x 4)	\$2,000	\$1,000
Tax on Capital Gain (5 x ~50%)	\$1,000	\$500
Donation Tax Credit (1 x 50%)	\$5,000	\$5,000
Net Tax Savings	\$4,000	\$4,500
Net After-Tax Cost of Donation	<b>\$6,000</b>	<b>\$5,500</b>

In both situations, you will receive a tax incentive based on your donation. However, by gifting the qualifying security directly to the charity, as opposed to selling the security and donating cash, you will have saved an additional \$500.



## Charitable Bequests

The largest charitable donation that individuals make is often made at the time of their death through their will. A charitable gift made through your will is treated by the Canada Customs and Revenue Agency as a contribution made immediately before death. The result of this contribution is a charitable donation tax credit is available in the year of death. It may also be possible to use the donation in the year prior to death. The charitable donations limit in the year of death increases to 100% of the deceased's net income.

Large bequests in your will may become wasted if they exceed the your income. One method to avoid this potential problem is to make smaller charitable donations throughout your lifetime. A Collins Barrow advisor can assist you in determining the appropriate strategy.

Additionally, a planning opportunity exists with respect to your life insurance policy, RRSP or RRIF. If you name, through your will, a charity as beneficiary of the aforementioned, your estate will be able to claim the amount as a charitable donation on your tax return.

## Gift of Life Insurance Policies

The donation of a life insurance policy is an excellent way to benefit a charity. To make the contribution, ownership of the policy is transferred to the charity and the charity is named as the beneficiary. From a taxation perspective, the donation is valued at the policy's cash surrender value in addition to accumulated dividends and interest. Any outstanding policy loan will reduce this value.

Also, once an insurance policy is gifted to a charity, the premium payments on that policy made by you will be considered by the Canada Customs and Revenue Agency to be a charitable donation and will entitle you to a tax credit.

At Collins Barrow, we can help you plan and initiate a donation strategy that will maximize the benefits to both you and the charity of your choice while achieving your philanthropic goal. Visit us online at [www.collinsbarrow.com](http://www.collinsbarrow.com) to learn more and to locate a Collins Barrow advisor in your area.

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This publication is intended to summarize topics of interest relating to charitable donations. Such summaries are not exhaustive discussions of the topics covered. While every effort has been made to offer correct information, inadvertent errors can occur and applicable laws, rules and regulations can change. We recommend that appropriate professional advice be sought before acting upon any of the information contained within this publication.

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