

CHARITABLE GIVING – A WIN-WIN STRATEGY

Your Charitable Giving strategy will make a huge difference in someone's life while you gain personally by reducing the personal income taxes that you pay. The Canadian Government encourages charitable giving by giving back a large portion of your donated amount in the form of reduced taxes or a higher refund when you file your income tax return. Here are the fundamentals of charitable giving:

- To be eligible for the tax credit, you have to make the donation to a Registered Canadian charity.
- The donation tax credit reduces the amount of tax you owe, rather than your taxable income.
- Donations made by you or your spouse can be combined and claimed on one tax return.
- You do not have to claim the donations in the year you make them. You can carry forward and claim in any of the next 5 years. Similarly, donations made in any of the previous 5 years that you have not claimed before can be combined and claimed in the current year.
- Generally, you can claim donations up to the limit of 75% of your net income except in the year of death and the year before where the limit is 100% of the deceased's net income.

The federal tax credit is 15% on the first \$200 of donations, and the excess above \$200 attracts a tax credit at the highest federal tax rate of 29%. The corresponding Ontario tax credit is 5.05% on the first \$200 and 11.16% on any amount above \$200. On average, you are receiving a refund of about 45% of your donations in excess of \$200. Isn't this wonderful that the Canadian Government is giving back almost half of what you donated for a good cause, thus enabling you to donate more to worthy causes such as Handi-Care International?

The following table illustrates the tax benefit that you can reap by making that donation:

Income Range	\$42,707 - \$80,963	Above \$80,963
<u>Amount of Donation</u>	<u>Tax Savings</u>	<u>Tax Savings</u>
\$100	\$20.05	\$22.88
\$200	\$40.10	\$45.76
\$500	\$160.58	\$184.98
\$2,000	\$762.98	\$881.10
\$10,000	\$3,975.78	\$4,593.90

Donating Securities in-kind: The rules around donations in-kind make it more attractive to donate stocks, bonds, mutual funds and other marketable securities, rather than cash. By donating publicly traded securities, you eliminate the capital gains tax that you would have otherwise paid.

The example below compares the huge tax benefit of donating securities in-kind vs. selling the securities first and then donating cash to the charity:

	<u>Sell Securities & Donate Cash</u>	<u>Donate Securities In-kind</u>
Current Market Value of Securities	\$100,000	\$100,000
Adjusted Cost Base	(40,000)	(40,000)
Capital Gain	\$ 60,000	60,000
Taxable Capital Gain (50% vs. 0%)	\$ 30,000	0
Tax payable on Capital Gain (assume 45%) A=	(\$13,500)	0
Tax Benefit of Donation (at 45%) B=	\$ 45,000	\$ 45,000
Net Tax Benefit (A+B)	\$ 31,500	\$ 45,000

Net Savings from Donating Securities vs. Cash	\$13,500
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The appreciated securities must be transferred directly to the charity through a broker/dealer. By doing this, you are eliminating your capital gains tax entirely. The charity will issue a tax receipt for the fair market value of the security on the date the transfer occurs. It is a win-win strategy.

Donating Life Insurance: You can purchase life insurance and make the charity as the beneficiary. You will receive a tax receipt for the insurance premiums that you pay for this coverage. You can also transfer an existing policy for which you will receive a tax receipt based on the cash surrender value at the time of transfer, and all subsequent premiums will result in tax receipt equal to the annual premium being paid.

There are other complex strategies if you wish to donate a sizeable amount. These are considerations to take into account in proper tax planning and estate planning, in particular. Depending on your particular situation, you may wish to consult your financial advisor, lawyer or tax accountant to determine the most effective and efficient tax planning strategy, and at the same time helping out your favourite charity.

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