Do Good, Feel Good & Benefit Taxes

Many Canadians make charitable donations of one sort or another. We are good at giving: according to the latest Statistics Canada data, over 40 percent of taxpayers with income of over $80,000 contributed to a charitable organization.[1]

There are a variety of ways to make contributions, some of which may benefit you at the same time as the recipient organization. Here are just a handful of options:

Cash Donations — Any donation to a registered charity in good standing 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 (or 33 percent*) beyond this threshold. 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 best use it to their 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 its fair market value, but also eliminates the associated capital gains tax. If you wish to do this 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 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. 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.

Get More Information

Charitable giving can be a wonderful way to create a legacy, but the options and their outcomes in estate or tax planning can be complex. There may be other alternatives to consider, than just the ones outlined above, so please get in touch if you are interested in discussing a giving strategy as it relates to your own wealth plan.

Where major gifts are concerned, seek independent professional advice. We would be happy to assist where possible.

*The federal donation tax credit rate for donations over $200 increases to 33 percent to the extent that an individual has taxable income taxed at the federal rate of 33 percent.
1. Based on 2019 tax return data: www150.statcan.gc.ca/n1/daily-quotidien/210308/t004c-eng.htm