Implications of Charitable Giving

Tax treatment of donations

Tax Savings	**Federal**	**Ontario**	**Total**
On 1st 200.00	15.00%	5.05%	20.05%
Above 200.00	29.00%	11.16%	40.16%

The tax savings will go up as your taxable income goes up. The following table indicates tax savings percentage in different income ranges and donation amounts:

Income level	$1,000 Donation	$10,000 Donation
$50,000	36.1%	39.76%
$75,000	36.1%	39.76%
$100,000	41.7%	45.94%
$150,000	41.7%	45.94%
$220,000	44.9%	49.86%
$325,000	44.9%	49.86%

- The maximum amount of donations that can be claimed in a year is 75% of your net income. In the year of a person's death and one year prior, the limit for donations is 100% of the deceased's net income.

- You can claim any donation made in the current or prior 4 years, so those that make smaller donations might wait and combine their donations to get the higher credit.

- The higher income spouses should generally claim the donations to reduce federal and provincial high-income surtaxes. There can be exceptions to the higher spouse claiming the donations.

Donations made by way of a will can be utilized as follows:

- The taxation year of the estate in which the donation is made.
- An earlier taxation year of the estate.
- The last two taxation years of the deceased individual against 100% of their net income.

Donations can be made in various ways

1. Cash or cheque.
2. Life Insurance.
3. Shares in public corporations.

WARNING – AVOID TAX SHELTERS WHERE THE BENEFIT EXCEEDS THE FAIR MARKET VALUE OF THE GIFT.

Life Insurance

- A Life insurance policy can be donated during the life of the insured.

- If the policy has a cash surrender value (CSV) the donation will be for this amount plus any premiums you continue to pay on the policy.

- Alternatively, if the policy is a term policy (no CSV) you can get a donation receipt for the premiums paid.

- You can designate an amount in your will to be donated from the proceeds of insurance paid to your estate.

- In this instance, you do not get any deduction on your tax return while you are alive, but will get a much larger claim on your final tax return.

Shares in Public Corporations

- If you have a stock portfolio with large unrealized gains on certain stocks you can make a direct (in-kind) donation of those shares.

- In addition to receiving a donation receipt for the fair market value of the shares, the accrued gain on the shares donated is exempt from tax.

Example 1

1. Taxable income is assumed to be in excess of $220,000.
2. Shares with a cost base of $50,000 are worth $100,000.

The income tax savings of donating the shares in kind to a charity are	$47,200
The income tax savings of donating the proceeds after selling of shares	34,800
Extra income tax savings as the result of an in-kind donation is	$12,400

Example 2

1. Total value of the estate was $1,540,000.
2. Total income tax before charitable giving was $214,500.
3. Market value of shares donated was $165,700.
4. Tax cost of shares donated was $16,500.
5. Income tax paid after donation was $91,000.
6. Income tax saving was $123,500.
7. Cost of donation to the beneficiary was $42,200.

Other

- When people plan their estate I generally suggest they list all of their assets for me.

- I then estimate the income liability related to each taxable item on their list.

- The estimated total of income tax owing sometimes comes as a big surprise and some of the planning tools listed above suddenly become more appealing to them.

- On the death of one spouse, assets can pass from the deceased spouse to the other spouse at tax cost which minimizes taxes owing at that time.

- There can be planning opportunities at this time to include some income on the deceased spouse’s final return in order to increase the cost base of certain assets for the second spouse.

- On the passing of the second spouse income taxes can be substantial.

- The income tax liability can be lowered significantly through the use of charitable giving in one form or another.