

Brad Brain



Smart Money: Planned Giving . . . How to Support your Favourite Charity from a Tax Perspective

Planned giving is one of my favourite topics. Properly structured planned giving allows the opportunity to support your favourite charities while minimizing taxes. What could be better than that?

Planned giving is something that most people should look at with the help of a trained professional. Estate planning and taxation are subjects where it is all too easy to overlook some details and end up with some unforeseen consequences. Working with an informed advisor will help you obtain your philanthropic objectives while at the same time, deliver some tax benefits when you need them most.

Tax credits for charitable donations

Several years ago Canada Customs and Revenue Agency (CCRA) enriched the federal tax credit for charitable donations. After the first \$200 per year, you receive a tax credit equal to roughly half of your charitable donation—up to 75 percent of your net income—plus 25 percent of taxable capital gains resulting from the donation of capital property. Any donations you do not claim can be carried forward for five years.

If you make a donation through your Will, the bequest is treated as if the gift was made in your final year. The limit is increased to 100 percent of net income in the year of death and the year preceding death.

If the gift is large enough, it is possible that some of it will not be usable for tax purposes. This is where you may want to consider other options to maximize both the tax advantages of gifting and the amount of money available to your family and favourite charities.

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Donate cash or shares?

Let's say you wanted to make a donation of \$3000 to your favourite charity and you also have a publicly traded security that initially cost you \$1000, now worth \$3000. Assuming the security is not sheltered from tax as in an RRSP, if you sell the security—either now or later on—a taxable capital gain will be triggered. Assuming a 40 percent marginal tax bracket, selling the security will trigger \$400 in tax—the \$2000 capital gain is subject to a 50 percent inclusion rate generating a \$1000 taxable capital gain, which is taxed at the marginal tax rate.

If you donate the \$3000 to charity; the government will give you about a

\$1500 tax credit. The net result is a tax savings of about \$1100—the \$1500 tax credit minus the \$400 in capital gains tax.

If you donate the shares directly to your charity, however, the capital inclusion rate is half of the normal rate. The charity will receive the full \$3000 value of the shares and you only pay \$200 in tax—the \$2000 capital gain is subject to half of the 50 percent inclusion rate generating a \$500 taxable capital gain, which is taxed at the marginal tax rate. The net result is a tax savings of about \$1300—the \$1500 tax credit minus the \$200 in capital gains tax—or \$200 more in tax savings than if you had donated cash.

Conclusion

Chances are you would prefer the bulk of your estate go to your loved ones and perhaps your favourite charities and to minimize the amount that gets eaten up in fees and taxes. You can do this with proper planning. Talk to a professional financial planner to see which method of gifting works best for you. ▲

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