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Making the most of your charitable giving

Both charity and donor can benefit more with some planning

Canadians are a philanthropic bunch. According to the 2015 BMO Charitable Giving Survey, 80 per cent of Canadians plan to make a charitable donation in the next 12 months, averaging an annual total of $694. While the percentage of people planning to donate is down ten percentage points from last year, it is in line with the four year average of 81 per cent dating back to 2012.

Canadians are especially generous around the holidays. According to the national charitable organization Imagine Canada, donations are expected to total approximately $5 billion between now and the end of the year.

Cash donations are still the most popular way of giving, but both charity and donor can benefit from more tax efficient ways of achieving their philanthropic goals.

Gifting publicly listed securities, such as stocks, bonds, and mutual funds to registered charities is one such way. A donor who sells the shares of appreciated securities, and donates the cash, is taxed on capital gains. However, if the shares are donated directly, the charity issues a tax receipt based on the fair market value of the securities. The charity gets the full value of the shares and the donor gets a full value tax credit without the imposition of capital gains taxes.

RSPs can also be used for philanthropic purposes by having the donor name a charity as beneficiary of their registered plan. On death, the balance of the plan transfers directly to the charity, and the estate receives a tax credit for the value on disposition. This can offset taxes on final income and effectively bypass probate fees. Flexibility is another advantage because the donor can change the beneficiary if circumstances change.

Insurance can be used in a similar fashion by transferring the ownership of the life insurance policy and naming the charity as beneficiary. When the donor passes, the charity receives the policy's cash surrender value plus any net accumulated dividends and interest. The resulting tax credit can be applied to a final tax return. Also, any additional premiums paid to the insurance company by the donor are considered a charitable donation and are thus eligible for further tax credits.

Donor Advised Fund funds set up endowments wherein the donor makes an irrevocable contribution of cash and other assets, which are invested to maximize the worth of the donation and increase its value. Investors can set grant recommendations and choose which registered charities receive donations. In return they are provided with an immediate tax benefit and they have a continuing philanthropic legacy.

Those wishing to donate to a charity but still needing income can use a Charitable Remainder Trust. Assets, such as income-producing real

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estate, are transferred into a trust and the donor gets an immediate tax benefit. The donor receives lifetime income and the charity receives the assets when the donor dies.

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