Rounding out the year with philanthropy

Canadians are generous with giving; don't miss opportunities

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By Kim Inglis

According a recent BMO report on charitable giving, fifty-two per cent of wealthy Canadians choose to donate to charities to which they have a personal connection. More than half of those say their motivation to give is based on the desire to have an impact on their community. Only 21 per cent say they give to reduce taxes. While reducing taxes may not be the main motivation, it is nonetheless a good one because 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.

Consider an investor in Ontario with a $10,000 stock position originally purchased for $2,000. There are two options: donating the cash after selling the shares, or donating the shares directly to charity.

If the investor sells and donates the proceeds to charity, capital gains taxation has an impact. Assuming a $150,000 annual salary with 48% marginal tax rate, the investor is left with $6,080 net proceeds to donate. The tax credit generated by the donation would be $2,402.

If the investor donates the shares directly to a charity, both are better off. By donating the shares directly, the investor is not subject to capital gains tax. This means the charity receives $10,000 worth of shares and the investor gets a $3,976 tax credit. This strategy applies to all publicly traded securities, including stocks, bonds, and mutual fund investments.

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

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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 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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