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To Give & To Receive

The tax opportunities in charitable giving

Canadians are a generous lot with a strong sense of social responsibility. About 24 million, or more than 82 per cent of the population aged 15 and older, made a charitable donation in 2013, adding up to \$12.8 billion.¹ At the same time, almost 13 million or close to 45 per cent of Canadians in this age group put in a collective two billion hours of volunteer time towards a good cause.²

But here's a curious fact: While an overwhelming majority of Canadians gave money to a charity or non-profit organization in 2013, only 5.6 million or about 22 per cent of tax filers claimed a charitable donation on their tax returns.³ For the 18 million Canadians who didn't tell Canada Revenue Agency about their financial philanthropy, this omission may translate directly into missed tax savings.

Back To Basics: Gifts and donations 101⁴

Understanding the tax rules around gifts and donations is the first step towards ensuring you don't miss out on opportunities to optimize your tax position. As a basic general rule, money or certain gifts made to qualified organizations can be claimed towards a federal and provincial or territorial tax credit on your income tax return. Because this tax credit is non-refundable, it can be used to reduce a tax liability but won't trigger a refund if you don't owe any taxes.

You can claim gift amounts of up to 75 per cent of your total income, and up to 100 per cent in the year of death. But keep in mind that the value of any "advantages" you derive from your donation such as free products or tickets to an event must be deducted from your claim.

Crunching The Numbers

The amount of your charitable donation tax credit is based on two tax rates: federal and provincial or territorial. These rates are, in turn, classed into two tiers based on the amount of your donation. For the 2014 tax year, gifts of up to \$200 qualify for a 15 per cent federal tax credit while anything above \$200 qualifies for a 29 per cent tax credit. In the same vein, each province and territory applies two tax rates, a lower one for gifts under \$200 and a higher rate for gifts over \$200.

As an example, if you're an Ontario resident and you donated \$1,000 to a qualified charity, here's how your tax credits will add up:

15% federal tax credit on the first \$200	\$30.00
29% federal tax credit on remaining \$800	\$232.00
5.05% provincial tax credit on the first \$200	\$10.10
11.16% provincial tax credit on remaining \$800	\$89.28
Total charitable donation tax credit	\$361.38

To crunch your tax credit numbers, use CRA's charitable donation tax credit calculator at <http://www.cra-arc.gc.ca/chrts-gvng/dnrs/svngs/clmng/b2-eng.html>.

First Time's The Charm

If you or your spouse or partner are claiming your first charitable donation for any year after 2007, you get a little extra something called the First Time Donor's Super Credit (FDSC). Applicable to monetary gifts made after March 20, 2013, the FDSC gives you an additional 25 per cent tax credit for donations of up to \$1,000. Using the previous example, this super credit adds up to an extra \$250 for a total non-refundable tax credit of \$611.38.

Giving Capital Property

Gifts of capital property – which includes land, cottages, buildings, and securities such as stocks and bond – can also give you a further tax advantage by reducing your capital gains taxes to as little as zero. Figuring out your tax credit and capital gains tax can get rather complicated. It's best to talk to your financial advisor before making a decision to donate capital property to ensure the gift supports a sound tax strategy.

Did You Get A CRA-Qualified Receipt?

There are thousands of Canadian groups and organizations that do good, but not all of them can write you a receipt that will make you eligible for a tax credit. Before donating to a particular charity or institution, check CRA's online listing of organizations authorized to issue official donation receipts, at <http://www.cra-arc.gc.ca/chrts-gvng/dnrs/rcpts/dntnl-eng.html>. In addition to charities and non-profits, organizations such as some amateur athletic associations, low-cost housing corporations and governments may also be qualified to issue receipts eligible for a tax credit.

Credits vs. Deductions

Eligible charitable gifts and donations count towards tax credits, not tax deductions. What's the difference? A credit gets deducted, dollar for dollar, from your tax liability. A deduction, on the other hand, reduces your taxable income.



Good Deeds Backed By A Tax Strategy

While most people give because they believe in a certain cause, it's still a good idea to consider charitable giving as part of an effective tax strategy. Here are a few tax planning pointers to keep in mind:

- **Pool your donations.** If both you and your spouse or common-law partner have donated to charity, look into the benefits of combining your gifts to get a larger tax credit.
- **Request a receipt for gifts in-kind.** You're unlikely to get a tax receipt for those used clothes and household goods that you left on your porch for the local charity to pick up. But for bigger-ticket items, such as a major household appliance that's only a few years old, ask the charity if they'll issue a receipt for the item's fair market value.
- **Carry it forward.** If you know you're going to make more money and owe taxes in a future year hold on to your charitable donation tax receipts and carry them forward for that higher-earning year. CRA allows carry forwards for five years after a donation is made, but requires you to first claim donations held back from a previous year.
- **Remember your workplace donations.** Many employers give you the option of automatically donating a small portion of your paycheque to a charity chosen by the company. These donations are summed up in your T4; make sure you claim them in your tax return.
- **Beware the inflated tax receipt.** Walk away from any charity that offers to give you a receipt for more than your gift's actual value. It's dishonest, illegal and could get you in a lot of trouble.

Don't Just Give – Plan To Give

Charitable giving is most effective for you and for the causes you support when it's part of an overall financial plan. Sit down with your advisor to develop a plan that will allow you to sustain your donations over time while making the most of the various tax credits and inclusions available.

This is especially important if you have significant assets that you'd like to direct towards charity. In addition to working with you to develop a tax-saving strategy, your advisor can help you decide on the best gift-giving structure. This may be a charitable foundation, a donor-advised fund or even a social enterprise.

Regardless of how much you give, understanding the tax implications and how charitable donations fit into your overall financial plan will make sharing your wealth even more rewarding.



¹ Statistics Canada, Volunteering and Charitable Giving in Canada <http://www.statcan.gc.ca/pub/89-652-x/89-652-x2015001-eng.htm>

² Statistics Canada, Volunteering and Charitable Giving in Canada <http://www.statcan.gc.ca/pub/89-652-x/89-652-x2015001-eng.htm>

³ Statistics Canada, Charitable Donors 2013 <http://www.statcan.gc.ca/daily-quotidien/150217/t/150217c001-eng.htm>

⁴ All tax-related information in this article are sourced from the Canada Revenue Agency website

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