Charitable Giving

Charitable giving programs can be found in all sectors of our society. Schools, churches, medical research foundations, community organizations all depend on the generosity of their patrons. A desire to help people is ample motivation for Canadians to participate in some form of charitable donation program. However, making a donation to a registered charity can provide some very attractive income tax benefits – both today and at death.

What Can You Give?

You can contribute almost anything to a registered charity. There are special rules governing gifts other than cash, but you are free to give almost any property of value. The more common gifts include:

- **Cash** – Most commonly donated during yearly fundraising campaigns. The savings in taxes could be up to 48% of the donated amount. This would be in the form of a donation credit. There is a carry-forward privilege of five years for excess donations in your lifetime. In the year of death the excess donations can be carried back to the year before death.
- **Securities** – You can gift publicly traded shares to a charity rather than selling them and donating the cash. On May 2, 2006 the Federal Government Budget eliminated the capital gains tax on donations of most publicly traded securities to public charitable organizations. For example: You donate $100 worth of publicly traded securities to a community foundation or charitable organization. You originally purchased the security for $40 and by the time of your donation, its value has increased to $100. As a result, there is a potential $60 capital gain. Instead of paying the capital gains tax, you will be issued a tax receipt for $100, representing the actual amount of the donation.
- **Life Insurance** – There are two primary ways to donate a life insurance policy. Each method has a different tax treatment.

  Make the charity the owner and beneficiary – If an existing policy is transferred to the charity then the donor will receive a tax receipt for the cash surrender value. There may be a tax liability if the cash surrender value in the policy exceeds the adjusted cost base. All premiums paid by the insured after the transfer are a tax credit for individuals and a tax deduction for corporations. Once the charity receives confirmation from the insurance company that the premium has been paid, then the charity issues a tax receipt to the insured.

continued...

The insured is the owner and the charity is the beneficiary – The charity would receive the death benefit proceeds. Upon death, your estate would receive a tax receipt for the full amount of insurance proceeds. As owner, you are free to change the beneficiary if so desired.

- **Life Annuities –** You can make a lump sum contribution to a charity and receive a lifetime stream of income. The charity would purchase a life-annuity from an insurance company on behalf of the donor. A tax receipt, which is based on life expectancy, is given to the donor for the amount of the gift, which exceeds the expected annuity payments. If you are concerned about reducing the value of your estate then a life insurance policy could be purchased to replace the capital donated to the charity.

Whatever strategy you choose, charitable giving can be very rewarding. It's wonderful to see your gift at work and to receive tax benefits as well. To find out more information please contact your BMO Nesbitt Burns Investment Advisor who will refer you to an Estate & Insurance Advisor (in Quebec, Financial Security Advisor) from BMO Nesbitt Burns Financial Services Inc.

BMO Nesbitt Burns®