Philanthropy and Giving Back – Your Giving Strategy

Philanthropy and charitable giving opportunities come in many forms. Often the motivation to support a charity is linked to an emotional connection with a loved one, a personal experience or simply a desire to make a positive difference.

Your charitable giving may include cash donations made in response to a specific request, a donation of your time or ongoing financial support through a pre-authorized donation plan. However, if you'd like to be more strategic with your gifting, consider incorporating charitable giving into your wealth management plan. A formalized giving strategy can be much more fulfilling, provides an opportunity to leave a legacy and offers some very attractive tax incentives.

Charitable Donation Tax Credit

While there are rules governing gifts other than cash, you can contribute almost any property of value (i.e., securities, RRSPs, RRIFs, life insurance and real estate) to a registered charity.

Although no one makes a charitable donation solely for the tax benefits, the federal government provides favourable tax incentives that encourage Canadians to be generous with their charitable giving strategies.

The charitable donation tax credit can be claimed for all donations up to 75% of your net income for the year. Donations that cannot be claimed in a given tax year can be carried forward for up to five years. Further, in the year of death and in the year prior to death, the maximum donation increases to 100% of net income. The federal tax credit (on gifts exceeding $200) is calculated at the top marginal rate, regardless of your personal tax rate.

Donating Appreciated Securities

In addition to the charitable donation tax credit, capital gains can be eliminated when you donate qualifying publicly traded appreciated securities directly to a charity. By donating the security directly to the charity, versus selling the security and donating the proceeds, you can avoid paying the tax on any capital gains that would otherwise be incurred on the eventual sale of the security.

Life Insurance

Another popular method for giving back to the community is to donate a life insurance policy to a registered charity. There are two common ways to do this. One is to make the charity the owner and beneficiary. The other is to have the insured as the owner and the charity as the beneficiary. Where the insured transfers ownership to, and designates the charity as the beneficiary, a taxable disposition may arise. However, a donation receipt based primarily on the cash surrender value of the policy is issued and all future premiums paid by the insured are considered charitable donations eligible for a charitable tax credit.

A life annuity can also be used as part of a charitable gift plan. The benefactor would use a portion of his/her capital to buy a life annuity to provide a lifetime stream of income. The remaining portion of the benefactor's capital could then be donated to a charity. The result is that the benefactor is able to make a significant gift without impacting his/her income needs.

Endowment Funds, Donor Advised Funds and Private Foundations

Community foundations are locally run public entities that build and manage endowment funds to support charitable activities in their community. They often serve as a knowledge hub, helping donors target their support to address pressing societal needs and promising opportunities. They can guarantee the fulfillment of a donor's charitable intent in perpetuity, and will undertake the responsibility to ensure that all gifts received and endowment funds established are used for the purposes directed by a donor. For some, donor-advised funds offered by community foundations can provide an attractive, cost-effective alternative to those considering the establishment of a private foundation. Community foundations are registered charities that are designated by the Canada Revenue Agency (CRA) as public foundations under the Federal Income Tax Act. Thus, gifts made to community foundations will generate a charitable tax receipt and produce income tax advantages. For example, gifting appreciated public shares to a community foundation can also result in the elimination of the capital gains tax, as previously discussed.

Private foundations have been a popular and effective method for affluent families to create a legacy. Much good has resulted in communities at large by the creation and use of private foundations. In addition to tax advantages, a private foundation is a suitable philanthropic vehicle for those who wish to retain control over and involvement in grant decisions making; pass on their values through family giving; involve family members in the decision making process; and focus on issues of personal importance.

Business Owners Strategies

Canadian business owners should also be aware that similar tax incentives as those for individuals exist for corporate donors, including the elimination of capital gains on a qualifying gift of publicly traded securities. Notably, however, a corporation will not receive a tax credit for charitable gifts; instead, the corporation will be entitled to a deduction equal to the value of the gifted property. This will result in a reduction of the tax that would otherwise be payable on income earned by the corporation, so it's important to take into account the rate of corporate tax paid. Similar to individuals, corporations are also restricted on the amount of charitable deductions claimed annually. A corporation can deduct charitable donations, up to a maximum of 75% of its current year net income, with the potential to carry forward any excess for up to five years.

Business owners who are disposing of their business may be exposed to significant tax personally or within their corporation, depending on how the sale is structured. As such, they may wish to consider the aforementioned charitable giving strategies as a possible means of reducing this significant tax liability, while addressing their charitable intentions.

Conclusion

Whatever strategy you choose, it can be ultimately rewarding to see the positive effects of your gift at work in your lifetime and beyond. Adding a philanthropic component to your estate planning can result in significant tax savings, while addressing your desire to leave a lasting legacy. To learn more about planned giving strategies, please contact your BMO Nesbitt Burns Investment Advisor.

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