

## Planned Giving Opportunities

To most Canadians donating to charity is important. As a result, many individuals make gifts or bequests to one or more charitable organizations yet they are not always sure they are doing this in the most tax effective manner possible.

### Charitable Donation Tax Rules

A federal tax credit of 16% is available for donations of \$200 or less, and this credit increases to 29% of the excess over \$200. When you add the provincial credit to the federal tax credit, the end result is an overall tax saving of approximately 50% (please note that this will vary by province). For example, a gift of \$10,000 would create a tax credit of approximately \$5,000 ( $\$10,000 * 50\%$ )

Canada Customs and Revenue Agency (CCRA) allows either spouse to claim donations. All claims should be made by the higher income spouse to avoid having two \$200 thresholds in a year and avoid additional provincial surtax.

### Donating Securities

One of the most tax effective ways of donating to charities is to donate securities rather than cash. In October 2001, the finance minister made a permanent provision (that was first introduced as temporary in 1997) to encourage the gift of marketable securities to charitable organizations. If you realize a capital gain on a security that you do not donate to charity, 50% of the capital gain is taxable. If you donate a security to charity only 25% of the gain will be taxable. Here is an example to illustrate this!

### An Example:

Mrs. Jones is deciding whether to donate \$100,000 of XYZ to her favorite charity or to sell the stock and donate the cash. The cost of these shares was \$50,000.

	Donate Stock	Sell Stock and Donate Cash
Proceeds of Sale	\$ 100,000	\$ 100,000
Cost base	(50,000)	(50,000)
Capital Gain (A)	\$ 50,000	\$ 50,000
Taxable Capital Gain (B)	12,500 (25% of A)	25,000 (50% of A)

Taxes Payable on Gain (50% of B) Equals (C)	\$ 6,250	\$ 12,500
Tax Receipt	\$ 100,000	\$ 100,000
*Tax Credit (D)	\$ 50,000	\$ 50,000
Less Tax Paid (C)	(6,250)	(12,500)
Net Tax Savings (D-C)	\$43,750	\$37,500

\*Notes: This credit is approximate and will vary from province to province. In all cases, individuals may only claim the credit for up to 75% of net income in any given year.

As you can see from the above example the charity receives the same amount of money. However by donating stock rather than cash your tax savings will be greater.

### **Need More Information**

For more information on this and other Planned Giving strategies ask your advisor for a copy of *The ScotiaMcLeod Wealth Planning Series – Planned Giving Handbook*.

Note: The above article is for information purposes only and should not be construed as offering tax advice. Individuals should consult with their personal tax advisors before taking any action based upon the information in this article.