



# CHARITABLE GIVING AND TAX PLANNING IN CANADA



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## EXECUTIVE SUMMARY

In this report, we look at the relevance of taxation in deciding to donate to Charity. We present the specific tax calculation for both individuals and businesses in Canada and compare the tax benefit to that received by donors in other countries.

We then discuss special situations that enhance the tax benefit of making a charitable donation. These include the donation of investment securities, private company shares, personally donating compared to donating through your business, insurance, Wills and Estates, RRSPs and RRIFs, real estate, and other Gifts-in-Kind.

Although tax policy is not the top concern of an individual or business when making their donation decision, it is certainly appreciated and provides an incentive to donate. The tax treatment of the donation can also have an impact on the size of the donation, the frequency of donating, and the timing of a donation.

For many donors, the decision of when to donate and the amount is made as a taxation year-end approaches. Witness the tremendous popularity of Giving Tuesday, held the first Tuesday after the Thanksgiving holiday in the United States. This calendar event is heavily marketed as a tax-planning strategy.

Similarly, a decision to make a large donation can often be tied to estate planning. This is very much a tax-driven process driven by the donor, their heirs, and financial planners.

Financial planners and gift advisors are involved in managing a donor's overall financial portfolio, including charitable donations. Tax policy is a big factor in giving advice to a donor by a third-party.

This report is an ideal source for information on the tax policies of charitable giving. It should be a handy reference source for donors and their network of advisors.

### Principle conclusions of the Report

- In recent surveys of motivations for charitable giving, tax policy is not revealed as a top priority. Rather, it is a supporting factor in making a decision to donate.
- Tax credits are shown to be of increasing importance in the decision to donate as the size of the donation increases.
- The respondents in all surveys were unanimous in stating that Tax Credits are a welcome benefit of making a decision to donate.
- When a business makes a decision to donate, the Tax Credit becomes a more important factor in the process.
- For individual giving, the first \$200 donated will receive a federal tax credit of 15 percent. For donations over \$200, the federal tax credit rate increases to 29%.
- The tax benefit is a donation **tax credit**, meaning that it is a deduction from the tax payable calculated on the individual donor's tax return. The Veritas Foundation offers a convenient Tax Calculator on its website to assist individual donors in estimating the tax impact of their donation.
- Small and large businesses operating in Canada can claim deductions on charitable donations for up to 75 percent of their net income. A five-year carry forward is allowed. Unlike individual taxes, the charitable donation is treated as a reduction in Taxable Income.

- Whether to give a donation personally or through a corporation depends on the income level, province of residence, and the amount of the donation.
- Comparing Canadian tax benefits on charitable donations to their treatment in other countries shows the favourable treatment in this country.
- For individuals, it may be more beneficial to donate investment securities which have appreciated in value than making a cash donation. For corporations, this option is also quite favourable.
- There are two tax options available when considering donating insurance to a Charity: donate the policy immediately to the Charity, or name the Charity as a beneficiary of the policy. The tax implications differ.
- It will be necessary to have an independent appraisal of the value of the Private Company shares prior to the transfer unless the estimated value is less than \$5,000.
- A donor's RRSP or RRIF can be gifted to a Charity which will entitle the donor's Estate to a charitable tax receipt for the value of the RRSP or RRIF at the time of receipt.
- There are tax benefits to donating many other gifts-in-kind of goods and services such as jewellery, art, real estate, furniture, computers, personal items, pro-bono services, and more.

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## Our Vision

**We will participate in a thriving Canadian philanthropic sector where the most impactful charities with the highest governance standards are celebrated and supported by donor capital.**

## Our Mission

**The Veritas Foundation aims to be Canada's authoritative source for participating in the country's charitable sector and evaluating its effectiveness and impact.**



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