KPMG

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Charitable Planning — Helping Your Donation Go Further

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Carefully planning your charitable giving may improve your personal tax situation for 2019. However, it's important to consider how you will make your donation, because the tax savings you receive depends on the type of gift you make. Whether you ultimately choose to make a cash donation or a tax-effective gift of property (known as a "gift in kind"), you'll still have to make your charitable gifts by December 31, 2019 if you want to claim the donation tax credit on your 2019 tax return.

Generally, your after-tax cost for a $1,000 cash donation in 2019 can range from a low of $460 to a high of $522 if you are a "high income earner" with income over $210,000, and from a low of $500 to a high of $562 if your income is below that amount (depending on your province of residence). Donating property such as securities, artwork, or real estate instead of an outright gift of cash may increase the tax benefits of the donation to you.

This *TaxNewsFlash-Canada* discusses Canada's tax incentives for encouraging charitable donations. It also looks at some different ways you can make donations during your lifetime or through your will.

Tax credits for charitable donations

As an individual donor, your charitable donations entitle you to a three-tier tax credit. The first $200 of annual donations produces a 15% federal tax credit, plus the applicable provincial credit. Donations above that level produce a 29% federal tax credit, worth between 43.8% and 50.0% when provincial tax credits are factored in, assuming your income is under $210,000 (see "Regular rate" in the table in Appendix I).

If your income is above $210,000 you can get a 33% federal tax credit, worth 47.8% to 54.0% when provincial credits are factored in, for the portion of your donation above $200, but only to the extent your taxable income is subject to the 33% tax rate (see “High rate” in the table in Appendix I).

Also keep in mind that there are income limits for charitable donation claims. The maximum amount of donations you can usually claim in a year is 75% of your net income (100% if you are in Quebec). However, this limit is effectively increased to 100% of net income for specific kinds of donations, including capital property resulting in taxable capital gains, depreciable property that trigger recapture of capital cost allowance and certain gifts of ecologically sensitive lands and “certified cultural property”.

If you have donation receipts that exceed your income limit, or if you choose not to claim a donation in the year you made it for other reasons, you can save the receipts and generally claim the credit in any of the following five years.

Example
Say you live in British Columbia and your income is under $210,000. If you donate $1,000 to charity in 2019, you will get a combined federal and provincial tax credit of 20.1% on the first $200, equaling about $40. For the remaining $800 of the donation, you’ll get a combined credit of 45.8%, equaling about $366. As such, your total federal and provincial tax credit will be $406, and the after-tax cost of your $1,000 donation will be $594. If you donate another $1,000, you’ll get a 45.8% credit for the whole amount, and the after-tax cost of the additional $1,000 will be $542 (i.e., a $1,000 donation, minus $458 in tax savings).

Gifts in kind — Donating shares and other assets

Donations of property other than cash, or “gifts in kind”, can include securities, artwork, and real estate. To determine the tax credit for your donation, a gift in kind is generally valued at its fair market value at the time you make the gift. You are also, however, deemed to have disposed of the property at that fair market value, which means that you must recognize any gain or income that would arise as if you had sold the property at that amount.

In the case of a donation of capital property such as artwork, shares or real estate, you may make an election to designate a value for the gift, anywhere between its cost to you and its fair market value, to avoid realizing a capital gain or to realize a smaller one. The tax credit for your donation will be based on the value you designate between your cost and the asset’s fair market value.

The tax system also includes special incentives to encourage gifts of “certified cultural property” and donations of ecologically sensitive lands to the federal government, a province, territory or a municipality, or certain charities. Capital gains arising on the donation of these types of property are generally not taxable.

If you’re leaning towards making a donation of property rather than cash, there are some considerations to keep in mind. If you already have certain large tax deductions or capital gains in a year from other dispositions, making a donation as a gift in kind that results in additional capital gains could result in a liability for alternative minimum tax (AMT). Before you make such a donation, be sure to crunch the numbers (or ask your tax adviser to do so for you) to ensure that AMT does not arise.

Donating publicly traded shares

Donations of eligible securities to charities or other qualified donees, including securities listed on a designated stock exchange, mutual funds and segregated funds of life insurance companies, are exempt from the capital gains tax. As such, you pay no tax on any gain inherent in such securities.

These rules apply to donations of securities to private foundations as well as public charities, though private foundations are subject to tighter restrictions on the amount of shares they (after taking into account non-arm's-length party holdings) can own in a corporation.

Cash vs. securities — Which should you donate?

If, for example, you want to make a charitable donation in 2019 and you have eligible securities that originally cost you $1,000 and are now worth $2,000, it's worth considering whether you should sell the securities and donate the proceeds, or simply donate the securities directly to the charity. Assuming you live in Ontario and are taxed at a marginal rate of 46.4% (i.e., your income is about $150,000), and you've already donated $200 in the year, it may make more sense to donate the securities.

This is because if you decide to sell the securities and donate the before-tax proceeds, a $1,000 capital gain will arise on the sale ($2,000 proceeds - $1,000 original cost). You would then have to pay $232 in tax on the taxable portion of your gain (50% of $1,000 × 46.4% assumed tax rate). Your $2,000 donation will give you a tax credit of $928 (46.4% × $2,000). In the end, the donation will result in net tax savings of $696 ($928 tax credit - $232 capital gains tax). Or, put another way, the after-tax cost of making your donation will be $1,304.

On the other hand, if you donate the securities directly, the charity will still get the full $2,000 value, and the taxable portion of the $1,000 capital gain will be tax-exempt to you. You will still get a tax credit of $928 for the donation (46.4% of $2,000). The net tax savings resulting from your donation in kind will be $928, or $232 more than if you sold the securities and donated the before-tax proceeds. Looking at it another way, the after-tax cost of your donation is reduced by $232 to $1,072 (from $1,304) when you donate the shares directly.

For a full numerical example of the tax benefits of a donation made in 2019 with the proceeds from the sale of securities compared with the direct donation of the same securities, see the table in Appendix II.

Ways you can donate

Once you've decided whether to donate cash or securities, you should also think about how you want to make your donation to your chosen charity. Some options include making donations through your will, having a corporation you own make a donation, and donating public company shares acquired under a stock option plan.

Charitable bequests and legacies

Gifts made by will or by an estate are deemed to have been made by the estate at the time that the gift is actually transferred to the charity, rather than as of the date of death.

Where charitable bequests are made by will, a donation can be allocated between the deceased and his or her estate for purposes of the charitable donation tax credit, as long as the donation is made by a qualifying estate, known as a "graduated rate estate" (GRE). Among other requirements, a GRE can only exist for up to 36 months after the death of an individual. A donation made by a GRE may be claimed as follows (subject to certain income limitations):

- In the GRE's taxation year in which the donation is made
- In an earlier taxation year of the GRE, or
- In the deceased individual's final return or in the individual's return for the year immediately preceding his or her death.

If a former GRE makes a gift after the 36-month period but within 60 months of the date of death, and meets all of the other requirements of being a GRE except for the 36 month time limit, a GRE donation can generally be claimed in:

- The taxation year of the estate in which the donation is made,
- In an earlier taxation year of the GRE, or
- In the deceased individual's final return or in the individual's return for the year immediately preceding his or her death.

Any estate (including a GRE) can claim a charitable donation tax credit for a donation in the year in which the donation is made, or in any of the five following years. However, an estate that is not a GRE, or a former GRE, cannot allocate a donation made by the estate to an individual's taxation year for the year of death or the immediately prior year or an earlier year of the GRE.

An exemption from capital gains taxation on gifts of publicly traded securities is available as long as the gift is made by a qualifying estate (i.e. a GRE).

A donation tax credit may also be claimed for donations of registered retirement savings plans (RRSP), registered retirement income funds (RRIF), tax-free savings accounts (TFSA) and life insurance proceeds made by a direct beneficiary designation on death.

In order to claim the donation in the estate (GRE or not), the estate must have taxable income that is not legally payable to the estate's beneficiaries. Otherwise, the donation tax credit may be "lost".

Donations made by corporations

If you own a corporation, you may want to consider having the corporation make a donation. While individuals get tax credits, corporations can deduct donations made in determining taxable income, within specified limits. If your private corporation donates securities or other capital property, the corporation's capital dividend account will be increased by the non-taxable portion of the capital gain, and this amount can then be paid out to the corporation's shareholders tax-free. It's a good idea to compare the results of donating personally or through your corporation, as lower corporate tax rates may make it more beneficial to make the donation personally.

Donating shares acquired through employee stock options

If you're an employee and you donate public company shares acquired under a stock option plan to a registered charity, you may be eligible for an additional deduction. This deduction effectively reduces the related income inclusion to nil, the same as would apply to a capital gain realized on the donation of other shares. One condition to qualify, is you must donate the shares to the charity within 30 days of the share acquisition (and in the same taxation year) under the stock option plan.

We can help

Your KPMG adviser can help you to consider how to improve the financial benefits of your gift to your chosen charity and the tax benefits to you or your corporation. We can also assist you in reviewing your will to help you determine if your charitable bequests will be made as you intend and are tax-effective for your estate.

Appendix I: Combined Federal and Provincial Tax Credits for Donations over $200 in 2019

Province	Combined Federal/Provincial Credit		After-tax cost of $1,000 donation in 2019	
	"Regular rate"	High rate	"Regular rate"	High rate
B.C.	45.8%	49.8%	$542	$502
Alberta	50.0	54.0	500	460
Saskatchewan	43.8	47.8	562	522
Manitoba	46.4	50.4	536	496
Ontario	46.4	50.4	536	496
Quebec	48.2/50.0*	53.3	518/500	467
New Brunswick	47.0	51.0	530	490
Nova Scotia	50.0	54.0	500	460
P.E.I.	47.4	51.4	526	486
Newfoundland	47.3	51.3	527	487

*In Quebec for income up to $106,555 the rate is 48.2%, and for income over $106,555 the rate is 50%.

Appendix II: Donation of Cash vs. Securities — Example

	Sell securities and Donate Proceeds	Donate Securities
Value of Donation (A)	$2,000	$2,000
Cost Base (B)	$1,000	$1,000
Capital Gain (A - B = C)	$1,000	$1,000
Capital Gain Inclusion Rate	50%	0%
Taxable Capital Gain (C x D = E)	$500	$0
Tax on E (assuming 50% marginal rate)	($250)	$0
Donation Tax Credit (A x 50%)	$1,000	$1,000
Net Tax Savings (F)	$750	$1,000
Net After-Tax Cost of Donation (A – F)	$1,250	$1,000