

Huronia
Communities
Foundation



*La fondation
communautaire
de la Huronie*

“Helping Caring People Give Forever”

Guide to Charitable Giving

This guide provides an overview of the income tax incentives available to Canadian residents who make charitable donations.

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How to Make Gifts

There are many ways to make a charitable gift. With increasing demands for support, it is important to take the time to determine how to make “the best gift” to your charities of choice. Specifically, the gift that provides maximum benefit to the community that is within one’s capacity to give.

In order to determine how to make “the best gift” consider three factors:

Financial circumstances (i.e. financial resources and obligations)

Personal circumstances

Philanthropic objectives, such as:

1. Interest in a particular field of interest (i.e. arts, education, children and youth, seniors, the environment, community leadership initiatives)
2. Provision of immediate or ongoing support
3. Assurance of wise investment of your gift (regarding both investments and grants)

Tax Considerations

We all have different reasons for donating assets to charitable causes but one thing most donors have in common is to do this in the most tax-effective manner possible.

Charitable organizations issue official tax receipts for donations received. The amount that an individual may claim as a reduction to taxable income is limited to 75% of his or her taxable income for the year. Any excess donations may be carried forward for up to five years. Note that in the year of death the limit increases to 100% of the taxable income and any excess may be carried back one year.

The top marginal tax rate in Ontario is 46.4% applicable to taxable income in excess of \$118,285 (2006 rates). Charitable donations greater than \$200 for the year reduce taxes payable for an individual in the top taxation bracket of the same 46.4% .

There are many vehicles with which to make a charitable donation. The most tax-effective approach depends on the individual donor’s financial position and goals, age and goals of his or her gift.

Financial Considerations

To better determine the amount and form of a gift, detailed summaries of the more common gift vehicles are available:

- Cash Gifts
- Gifts of Appreciated Securities
- Gifts Funded by Life Insurance
- Bequests
- Charitable Remainder Trust

When should you consider charitable giving?

A time to maximize personal benefits of giving occur when you are making major business, personal and financial decisions, such as:

- Estate or retirement planning, or writing or revising a will.
- Sale of a business or other major asset.
- At times of a financial windfall, such as an inheritance.
- At an annual review as circumstances change.

Note that for the following illustrations it is assumed, for simplicity purposes, that the individuals are residents of Ontario, are in the highest marginal tax bracket and have made at least \$200 in other donations in the year.

As each individual's circumstances are different, you should ensure to review your charitable giving plan with your tax planner or accountant, to see how it effects you.

DISCLAIMER: The detailed information/material on each of these forms of gifts is intended to provide general examples and reference tools for understanding the ways in which charitable gifts may be made. Every effort has been made to ensure the accuracy and currency of the information presented. Donors reviewing this information and material should consult with their professional advisors for independent advice on the best way to achieve their objectives. Any examples presented are for illustration purposes only.

Helpful Estate Planning Tips Involving Charitable Gifts, RRSPs AND RRIFs

Without proper estate planning, many people do not leave what they had intended to their heirs or favorite charity upon death. If individuals plan their estate, they are better able to reduce taxes and determine how their assets are distributed to both their heirs and charity.

Upon death, RRSPs and RRIFs are brought into income and are fully taxable. A surviving spouse may postpone payment of tax by using a spousal rollover of registered assets. However, this simply defers taxation until the surviving spouse passes away, when close to 50% of the RRSP/RRIF value may be wiped out due to taxation.

It is highly unlikely that Canadians want to see CRA as one of the beneficiaries of their estate. Without proper estate planning the following scenario would occur.

After death, an individual with a \$100,000 RRSP may only have \$56,000 available to distribute to his or her heirs or favorite charity. Almost half of the savings may disappear in taxes when the estate is settled. Is there anything that can be done to prevent this from happening?

An individual can:

- designate a registered charity as the beneficiary of their RRSP, RRIF or life insurance policy and receive a charitable tax receipt for the full value of the plan or policy on the individuals death

- in the year of death, claim charitable donations equal to 100% of their income on their final tax return, with a one-year carry back

This creates some interesting opportunities when individuals plan their estate. The following two estate planning strategies, shown below, illustrate how someone can plan for their estate to wind up in the hands of those they intended.

Example #1

Mr. Smith owns a \$100,000 RRSP that he would like to leave to his children and is also considering making a donation to a charity.

To ensure that this happens, he purchases an insurance policy for the value of his RRSP and names a charity as the beneficiary of the policy and his children as the beneficiaries of his RRSP. The life insurance death benefit can be structured so that the charitable donation tax credit could offset the RRSP tax liability at death. Upon his death, the following will occur:

- The \$100,000 life insurance policy will generate a \$100,000 charitable donation receipt from the charity

The estate will use the \$100,000 charitable donation receipt which will generate approximately a \$46,000 tax credit.

The estate tax on the \$100,000 RRSP is \$46,000 and when the \$46,000 tax credit is applied, no tax is payable to the CRA

The beneficiaries will receive the full amount from the RRSP since the tax payable is offset by the tax credit

Example #2

Mrs. Jones has taken care of her family in her will. She owns a \$100,000 RRSP. She would also like to provide a gift to her favorite charity for \$100,000 to be used to create a permanently endowed scholarship fund.

By naming the charity as beneficiary of her \$100,000 RRSP, the tax credit would be the same amount as the tax payable. No net tax on the RRSP would be payable, allowing the full \$100,000 to go toward establishing an endowed bursary fund. Upon her death, the following will occur.

The \$100,000 RRSP is gifted to the charity, which issues a \$100,000 charitable donation receipt

The tax payable by the estate on the RRSP is \$46,000 which is offset by the \$46,000 tax credit generated by the charitable donation receipt

The tax credit offsets the tax payable

Note that the value of an RRSP/ RRIF or Life Insurance Plan with the charity named as direct beneficiary on the plan, will not be subject to probate tax or any claims from creditors as it is outside of the will.

Gifts of Cash

What does it really cost to give?

A donation of \$1,000 will only cost the donor \$536 as it will generally result in a tax credit to the donor of \$464.

A Gift by way of Cash or Cheque

A gift by way of cash or cheque is a very straightforward way of making a gift to the Huronia Communities Foundation

An attractive form of gift for the donor who has cash readily available, wants to make an immediate donation and enjoy immediate tax savings.

The Foundation is able to invest the donation immediately to generate funds to support charity.

Tax Benefits

The portion of a donation over \$200 gets an income tax credit equal to the highest marginal tax rate (46% in Ontario).

The amount of donation you can claim in a year is limited to 75% of your income (100% in year of death).

Any unused donation can be carried forward five years (or carried back one year in year of death).

You also receive a credit of 22% on the first \$200 donated.

Examples

- a) *Mrs. Roy, has net income of \$60,000 and plans on making a gift of \$30,000 to the Huronia Communities Foundation.*
- b) *Mr. James has net income of \$500,000 and wishes to make a \$100,000 gift*

	Mrs. Roy	Mr. James
The Huronia Communities Foundation		
Value Received	30,000	100,000
Donor		
Donation Receipt	30,000	100,000
Tax Savings	13,800	46,000
Cost of Gift to Donor	16,200	54,000

Gifts of Appreciated Securities

The 2006 Federal budget has made the option of donating appreciated securities very attractive by eliminating capital gains tax on the securities while giving the benefit of the donation credit on the full value of the securities. This allows the donor to give the most to the Huronia Communities Foundation for the least cost. Over the past several years, federal budgets have effectively reduced the taxable portion of the capital gain on gifted appreciated securities from 75% to 0%.

The following are the criteria that must be met to qualify for this favourable tax treatment

Only gifts of qualifying securities are eligible which include: shares, bonds, warrants, options listed on a prescribed stock exchange, mutual fund shares/units, segregated fund units and prescribed debt obligations.

The actual securities must be transferred to the Huronia Communities Foundation. The gift will not qualify for favourable tax treatment if the securities are sold and then proceeds gifted to the Foundation.

Note that Gifts of Appreciated Securities to private foundations do not qualify for this tax treatment.

TAX ASSISTANCE FOR CHARITABLE DONATIONS BY INDIVIDUALS			
Of Cash Compared to Donations of Publicly Traded Securities			
	Type of Donation		
	Cash	Securities Donated to Charity	
		Pre-2006 Budget	2006 Budget
Fair Market Value of Donation	\$ 1,000	\$ 1,000	\$ 1,000
Top Marginal Tax Rate	46%	46%	46%
Value of Donation Credit (a)	\$ 460	\$ 460	\$ 460
Typical Cost Base of Security		\$ 400	\$ 400
Capital Gain on Security		\$ 600	\$ 600
Capital Gains Tax if Security Sold		\$ 140	\$ 140
Tax Saved on Donation of Security (b)		\$ 70	\$ 140
Total Tax Assistance (a + b)	\$ 460	\$ 530	\$ 600
Net Cost of Donation to Donor	\$ 540	\$ 470	\$ 400

Gift through a Charitable Bequest

Giftng by a bequest is to specify, in your will, a gift to Huronia Communities Foundation upon your death. The bequest may specify a certain sum of money, a particular asset, or a portion of the estate to be donated.

Often individuals may have their highest tax to pay in the year of death, due to capital gains triggered on deemed disposition of assets, and the full value of RRSP's and RRIF's reported as income on the final tax return.

Tax Advantages of Bequests

The estate benefits from the donation tax credit on the final tax return in the year of death.

The annual donation limit increases from 75% of net income to 100% in the year of death.

Any unused donation can be carried back one year and applied to 100% of the income in the previous year.

If you do have stocks that have appreciated in value, the estate may realize further tax advantages by making a bequest of the securities, rather than having them cashed in and then donating the cash proceeds. This is due to the elimination of capital gains taxes on donated securities as discussed in *Gifts of Appreciated Securities*.

The donor may specify that the bequest be used to establish a new fund in his or her name, be added to an existing fund or be added to a fund that may already have been established during his or her lifetime.

If gifting by bequest, you should consider providing the Foundation with a copy of the clause in the Will pertaining to the bequest. This will be particularly helpful for receiving the estate at the appropriate time.

There are many ways available to structure a will and bequest. You should consult with your estate planner and/or legal representative to ensure it best suits your wishes.

Gift of Life Insurance

This form of gift enables a donor to make a significant future gift at a modest cost.

Gift Options and Tax Implications

Option 1: Assign ownership of a new or existing life insurance policy to the Huronia Communities Foundation with the Huronia Communities Foundation as beneficiary.

Option 2: Name the Donor's Estate as Beneficiary with testamentary Bequest of Proceeds to the Huronia Communities Foundation.

Option 3: Name the Huronia Communities Foundation as Beneficiary of the Life Insurance Policy

Option 1: Assign ownership of a new or existing life insurance policy to the Huronia Communities Foundation with the Huronia Communities Foundation as beneficiary.

The donor transfers ownership of an existing policy to the Huronia Communities Foundation or sets up a new policy in the name of HCF and continues to pay premiums. In order to qualify for beneficial tax treatment, the policy must be absolutely assigned to HCF at the time of gift and you cannot have any remaining right to the policy (ie. it is irrevocable).

For an existing policy, you will be issued a donation receipt for the cash surrender value of the policy. The premiums you continue to pay on a new or the existing policy are also eligible for the donation tax credit.

Upon death, the life insurance company will pay the policy proceeds directly to the Huronia Communities Foundation.

Examples

- a) *Ms. White,, aged 46, has discretionary income but cannot afford to make a capital contribution to the Community Foundation. She purchases a life insurance policy with the face value of \$50,000, names the foundation as owner and pays annual premiums of \$1,200 for approximately ten years. Each year she receives a donation receipt for the premiums paid. Her tax credit is approximately \$552 (46%). Her out of pocket cost to make a future gift of \$50,000 is only \$648 per year.*
- b) *Mr. Gagnon transfers ownership of an existing life insurance policy to Huronia Communities Foundation with a face value of \$300,000. HCF is named as the beneficiary. The policy has an adjusted cost base of \$40,000 and a cash surrender value of \$50,000. Upon transfer to the charity the donor triggers a \$10,000 capital gain (\$50,000 - \$40,000). The taxable portion of this gain is \$5,000 and the tax liability at the top marginal rate is \$2,300. A charitable tax receipt is received for \$50,000 for a tax credit of \$23,000. Net tax-savings to the donor is \$22,500. As with example one above, the donor will receive a tax receipt for all future policy*

premiums paid by the donor. There is no donation receipt for the policy proceeds upon death..

Option 2: Name the Donor's Estate as Beneficiary with Testamentary Bequest of Proceeds to the Huronia Communities Foundation

The donor names his or her estate as the beneficiary of the policy and then includes a bequest to the Huronia Communities Foundation in the Will for the same amount. Upon death, the estate will be issued a donation receipt for the amount of the gift made in the Will.

The donation may be claimed in the donor's tax return in the year of death or the preceding year. The maximum claim for donations in the year of death and the preceding year is 100% of the donor's income in each of those years.

Life insurance proceeds are not taxable, so the full amount of the donation tax credit is available to offset taxes on other income (i.e. capital gains, RRSP, RRIF income triggered upon death, etc.)

Option 3: Name the Huronia Communities Foundation as Beneficiary of the Life Insurance Policy

Donors who wish to keep the insurance policy proceeds out of their estate and who may need to have access to the cash value of the policy or the flexibility of changing named beneficiaries may prefer this approach. Upon death the life insurance company will pay the policy proceeds directly to the Huronia Communities Foundation.

Naming the Huronia Communities Foundation, as beneficiary of a new or existing policy will entitle the donor to a donation receipt for the proceeds paid to the charity upon the donor's death.

Example

Mr. Green is the owner of a \$100,000 life insurance policy and names a charity as the beneficiary. Tax receipts are not issued for the annual premiums, however, Mr. Green has the flexibility to change the beneficiary or cancel/cash in the policy during his or her lifetime. The charity receives the face amount of the policy upon death. A tax receipt is issued for \$100,000 after death with a tax benefit to Mr. Greens Estate of \$46,000. This will help to offset or eliminate taxes otherwise payable on Mr. Green's RRSP's and RRIF's, the full value of which are taxed on his final tax return. Any unused portion of the donation receipt is carried back a year and is applied against Mr. Greens previous years tax.

Tip - Option 1 may be better suited to those who wish to have an immediate tax benefit and continuing tax credits during their lifetime. Options 2 and 3 may be more attractive to individuals who want to minimize their tax liability on their death.

Gift through a Charitable Remainder Trust

This is an arrangement under which the donor transfers property to a trust with the Huronia Community Foundation as the capital beneficiary. The donor is then entitled to the income from the trust for his or her life or another specified period of time, at the end of which the residual capital will be payable to the Huronia Communities Foundation.

The donor receives a charitable tax receipt at the time of transferring property into the trust based on the fair market value of the trust's residual interest. The residual interest is calculated based on the capital of the trust, its expected cash flows and other factors and usually needs expert valuation. Normally the arrangement is set up through a trust company.

The trust may be set up during the donor's lifetime or upon his or her death, with the income from the trust going to another beneficiary, such as a child or spouse.

There are a number of advantages to the donor when establishing an irrevocable Charitable Remainder Trust:

- provides lifetime income to the donor or other beneficiary
- provides an immediate tax receipt
- provides beneficial treatment of capital gains
- eliminates investment decisions on the donor's part, since the trustee can arrange for professional management of the trust assets
- avoids probate and other estate costs because the assets in a trust pass outside of the estate process
- not contestable
- provides privacy for those donors who wish their philanthropy to remain a private matter

Donors should be aware that there are a number of issues to consider when looking to establish an irrevocable Charitable Remainder Trust. Since the gift is irrevocable, title of the property has been transferred and in the case of a financial reversal, the donor cannot regain access to the principal. Most financial institutions will not establish a trust for amounts under \$100,000, so the capital outlay is quite large. There are set-up fees and ongoing costs charged by the trustee (if a financial institution), which the donor must incur.

It is very important that donors considering this type of gift seek professional counsel.