

Tax Incentives for Charitable Giving

Jamie Golombek

Managing Director, Tax and Estate Planning
CIBC Wealth Strategies Group

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Agenda

Charitable donations

- Overview
- First-time donor's super credit
- Gifts of securities "in-kind"
- Gifts of life insurance
- Gifts of RRSP/RRIF and TFSA
- Lifetime giving vs. gifts under a will



Overview

Charitable donations



The Big Picture

Trends in Estate Distribution

- \$10 Trillion transfer of wealth over the next 20 years in North America
 - Significant share will be directed toward philanthropy (an estimated \$50 billion)
 - Tremendous opportunity for families to discuss charitable interests and philanthropic goals



Source: Statistics Canada and Imagine Canada



Motivation to give

- After you have carefully planned for yourself and your family, think of your charitable giving as one of your children and ask yourself:
 - What are my philanthropic interests?
 - Have I shared my charitable interest and values with my family?
 - Do I hope that my children will continue to give as I have in the past?

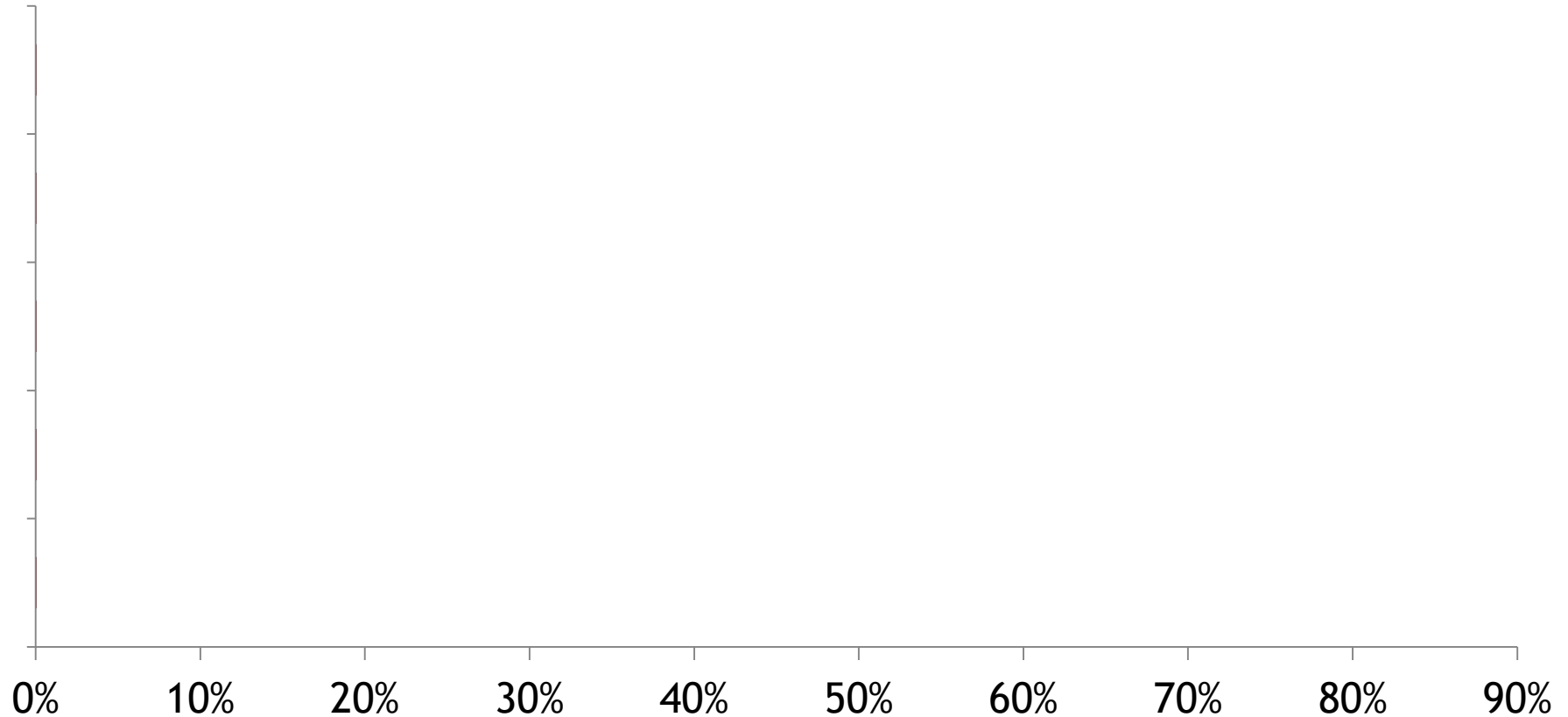


Motivation to give

Many believe that tax planning
is the major motivation for philanthropy...



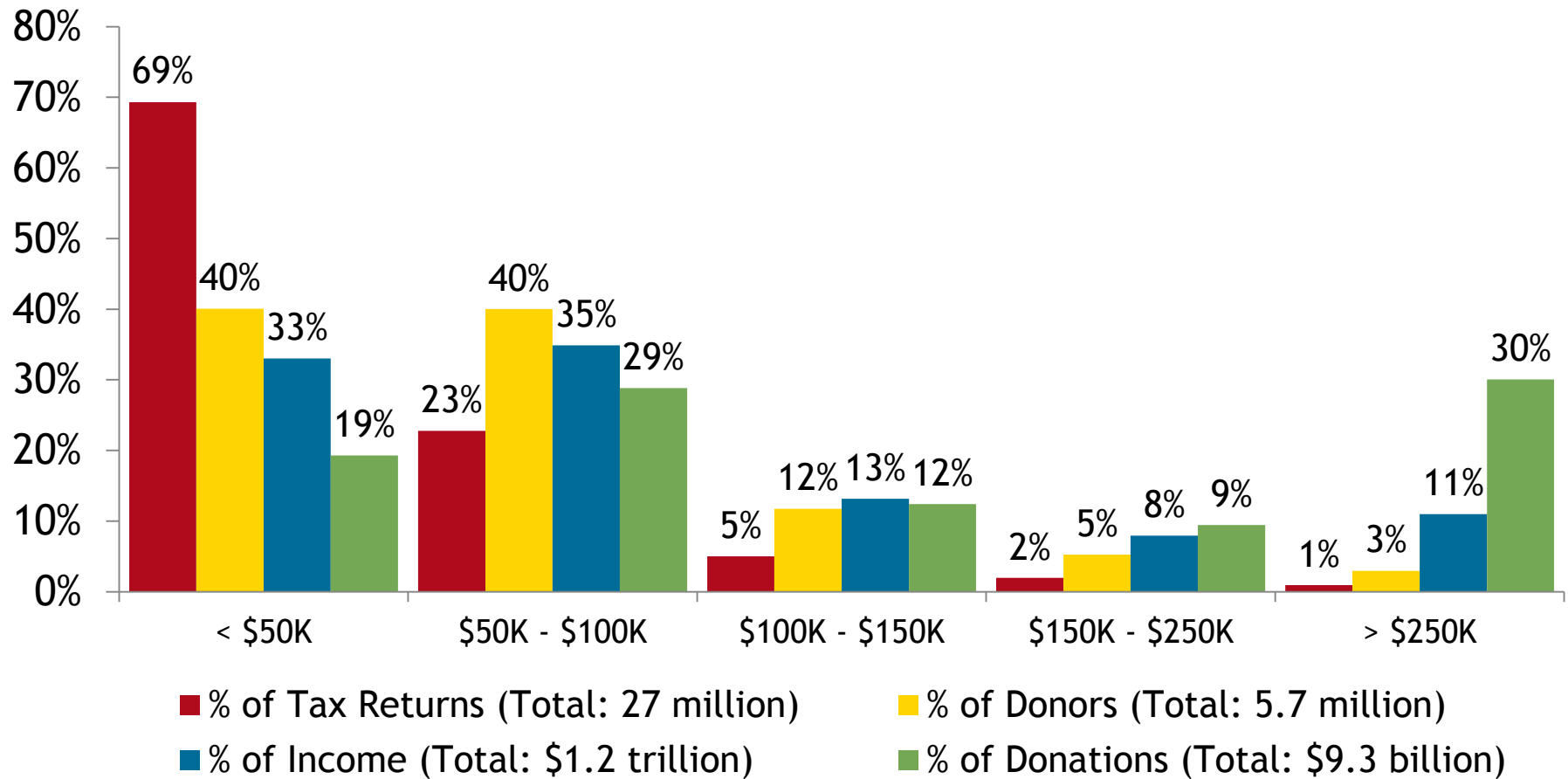
Why do Canadians give?



Source: Statistics Canada and Imagine Canada



Donations by income bracket



Source: Canada Revenue Agency - Income Statistics 2015 (2013 tax year), most recent statistics available



The government makes it easier to donate

Ontario donation tax credits in 2016

Total donations:	≤ \$200	>\$200	
Taxable income:	Any amount	≤ \$200,000	>\$200,000**
Federal donation tax credit	15.00%	29.00%	33.00%
Ontario donation tax credit	5.05%	11.16%	11.16%
Ontario surtaxes *	2.83%	6.25%	6.25%
Total	22.88%	46.41%	50.41%

Carry forward unused donation tax credit for five years

* Assumes the Ontario surtax applies rate of 56% of basic Ontario tax with taxable income exceeding about \$86,000.

** Under Bill C-2, which had its second reading the House of Commons on March 21, 2016, a federal tax credit of 33% would be available for donations that do not exceed the amount of taxable income > \$200,000.



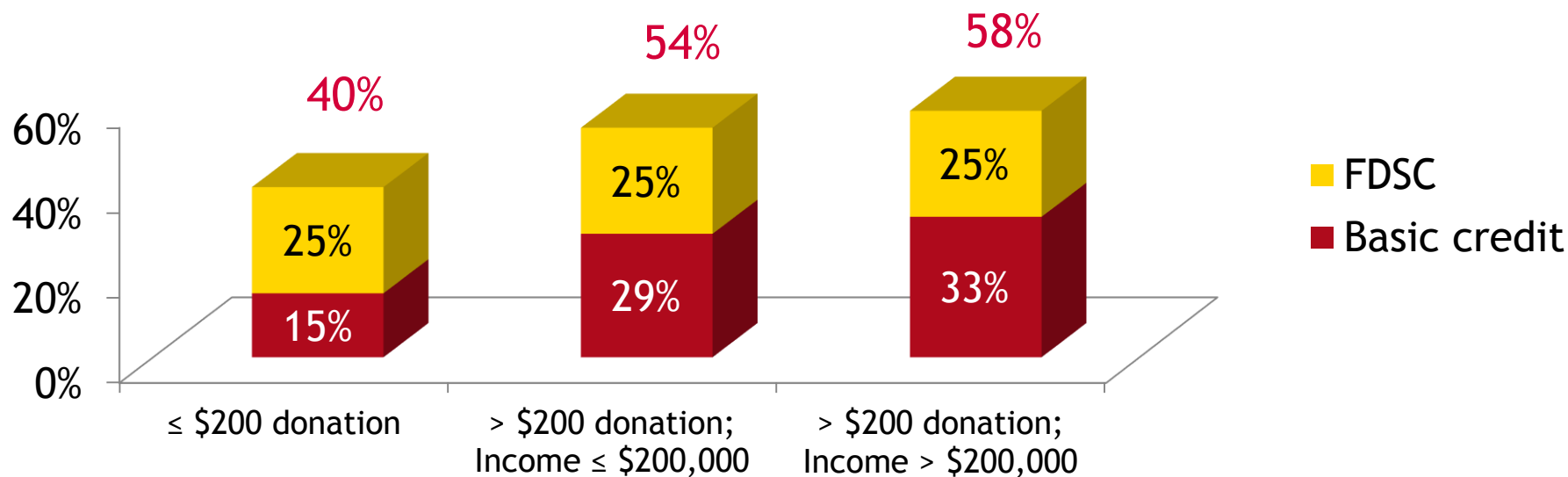
Mismatch of donations credit with income > \$150,000 in Ontario in 2016

	\$150,000 to \$200,000	\$200,000 to \$220,000	>\$220,000
Federal tax rate	29.00%	33.00%	33.00%
Ontario tax rate	12.16%	12.16%	13.16%
Ontario surtaxes	<u>6.81%</u>	<u>6.81%</u>	<u>7.37%</u>
Combined tax rate	47.97%	51.97%	53.53%
Donation credit*	<u>46.41%</u>	<u>50.41%</u>	<u>50.41%</u>
Tax cost of donation	<u>1.56%</u>	<u>1.56%</u>	<u>3.12%</u>

* Assumes at least \$200 of other donations have been made in the year.



25% First-Time Donor's Super Credit (FDSC)



- Additional 25% federal credit
- Up to \$1,000 of monetary donations
- First time donor:
 - No donations after 2007 by individual, spouse or common-law partner
- Effective - once only - through 2017
- Plus provincial donation credits

Gifts of Securities “In-kind”: Make donation using appreciated shares

Publicly-traded shares available for a donation:

– Market value of shares	\$1,000
– Adjusted cost base	<u>600</u>
– Capital gain	<u>\$ 400</u>



Cost of \$1,000 donation - ON 2016

Sell shares/donate cash vs. donate shares in kind

	Sell shares and donate proceeds	Donate shares in kind
Proceeds	\$1,000	\$1,000
Adjusted cost base	(600)	(600)
Capital gain	\$ 400	\$ 400
Tax on capital gain*	\$ 107	\$ 0
COST OF DONATION:		
Donation	\$1,000	\$1,000
Tax on capital gain	107	0
Tax savings from donation**	(504)	(504)
TOTAL COST	\$ 603	\$ 496

* 50% of capital gains are taxable, at a rate of 53.5% in ON in 2016 assuming the donor pays tax at the top marginal rate.

** 50.4% x Donation Amount, which assumes that \$200 of donations have already been made in the year, taxable income is >\$220,000 and the donor is not eligible for the First-time Donor's Super Credit.



Gifts of Life Insurance

You own the policy

- Name charity as beneficiary / or through will
- No donation credit for premiums
- Upon death, receipt for FMV of death benefit
- Can reduce taxes on death (on RRSP, capital gains, etc.)

Charity owns the policy

- Buy policy and assign it to the charity
- Donation receipt for Cash Surrender Value (UL or Whole)
- Premiums paid annually eligible for donation credit



Donation of RRSP/RRIF proceeds - ON 2016

Donor pays tax at lower rate of 30%

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- With lower marginal tax rates, tax savings from your donation may exceed the tax payable on your RRSP/RRIF withdrawal

	Tax
Tax on RRSP/RRIF withdrawal (\$1,000 x 30%)	\$300
Tax savings from donation (\$1,000 x 46%*)	(<u>464</u>)
Tax savings from donation exceeds tax on RRSP/RRIF	<u>\$164</u>

* 46.4% x Donation Amount, which assumes that \$200 of donations have already been made in the year, taxable income is about \$86,000 to \$200,000 and the donor is not eligible for the First-time Donor's Super Credit.



Gifts of TFSAs - intervivos

- No tax upon withdrawal
- Full charitable tax credit for amount donated
- **Example:**
 - Donate \$10,000 proceeds from a TFSA
 - No income inclusion
 - No impact on government benefits
 - Charitable donation receipt for full amount
 - Income test (75%)
 - Can it be used?



Lifetime giving versus gifts under will

Some rules to consider:

- Donation credit is available for donations limited to:
 - 75% of net income during lifetime; or
 - 100% of net income in year of death and previous year
- A donation made under your will may generally be claimed:
 - In your estate; or
 - In your final taxation year or the prior year

Wasted donation credit

Liam (single, ON) has the following assets upon death

- RRSP - \$50,000
- Principal residence - \$500,000
- GICs (non-registered) - \$100,000
- No other income in year of death

Tax on death

- FMV of RRSP taxable - \$50,000 income - tax is \$8,400
- Donation credit on \$50,000 - approx. 40% - \$20,000 (non-refundable)
- Can some be carried back to year prior to death?



Questions & Answers

www.cibc.com

www.jamiegolombek.com

