CLIENTS, PARTNERS & ASSOCIATES INC.

Giving to charity for bigger tax breaks

Our government uses tax policies to accomplish various socio-economic goals. They encourage people to save for retirement through RRSPs, to save for education through RESPs, and to invest in certain ways by offering tax incentives.

Another area in which they use tax incentives is to encourage support of charitable organizations. Since charitable organizations have lost much government funding, they've had to rely more on the support of generous individuals. In 1997 the Federal government introduced a special capital gains tax incentive to encourage this support.

The incentive was designed to make it attractive for individuals to donate publicly traded securities by lowering the capital gains tax to half of the regular rate.

If you own securities which have appreciated in value, you are better off donating the securities directly to a charitable organization than by selling the securities and donating the proceeds of the sale.

In addition to receiving the lower tax rate, you'll also receive a tax receipt for the Fair Market Value of the securities which you can use to reduce the amount of income tax you'll have to pay.

Another strategy to maximize the tax benefit of your donations
There are two tiers of tax credits for charitable donations: 17% for the first $200 donated, 29% for amounts over $200. After the reduction in provincial tax, the net effect is that the amount over $200 that you donate will result in a tax saving roughly equal to the top marginal tax rate. This leads to a strategy.

Since you can carry unused donations forward for five years, you can accumulate your donations to take advantage of the larger tax credit for donations over $200. And because receipts from one spouse can be used on the other spouse's return, you can maximize the credit by having one spouse claim all the family donations.

If you'd like to speak to someone personally, click here to find the CPA financial planning professional closest to you.

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