THE GLOBE AND MAIL

CESTNICK

TAX MATTERS

How to help the helpers as charities weather drop in donations

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It's been a tough year for charities. Imagine Canada, an advocacy and research group that supports and strengthens charities and non-profit organizations so that they can better serve our communities, released a report in the middle of the pandemic that speaks to the challenges that charities are facing today.

The report shares that nearly three quarters (73 per cent) of charities have experienced reduced donations since the start of the pandemic. Organizations have made significant reductions in staffing and more cuts are likely, despite government wage subsidies. Finding volunteers during the pandemic has also been difficult (49 per cent of charities have had trouble engaging volunteers under the current working conditions).

Many in the charitable sector that I have spoken to (I'm on the board of the Burlington Community Foundation) are concerned that more than one third of charities may not survive. And all of this comes at a time when the need for the services of many charities is on the rise.

Since year-end is quickly approaching, I wanted to share some ideas that can help charities, save you tax and allow your giving to be more meaningful to boot.

Give what you can. I understand that this has been a difficult year financially for many people, and so perhaps you can't give what you would normally. The most recent statistics from the Canada Revenue Agency show that one in five (19.1 per cent) of tax filers claimed donations in 2017, donating a total of $9.95-billion. If we, as Canadians, could increase our giving by just 10 per cent, we would add almost a billion dollars for charitable causes – a huge number. And don't forget, for every dollar you donate, you'll get back up to about half of that amount in tax savings.

Give like you invest. Just as you might have a strategic asset allocation for your investment portfolio (defining proportions in cash, fixed income, equities, non-traditional strategies, etc.), prepare a “strategic giving allocation” where you identify what proportion of your giving will go to different charitable sectors (the arts, health care, domestic aid, international aid, animal care, child well-being, sports and recreation, education, etc.). You’ll find your giving much more meaningful by doing this, rather than spreading it thinly across many charities without a game plan.

Make it automatic. So many people scramble this time of year to make their donations by year-end to get the tax relief in the current year. Talk about reactionary. Once you’ve defined your strategic giving allocation, identify the few charities you want to support in those areas, and consider giving to them every month in 2021. Make it automatic by using preauthorized contributions. The scrambling will be a thing of the past and you can then focus on understanding the good work the charities do.

Donate securities. If you’re looking to ramp up the tax savings, consider giving publicly traded securities that have appreciated in value, rather than cash. When you donate securities to charity, you’ll eliminate the capital gain that has accrued on those investments, and this is in addition to the tax credit you’ll receive for the value of the securities donated. It’s a double benefit.

Donate life insurance. There are three ways to do this. You can arrange for a new policy on your life, with the charity as owner and beneficiary. You’ll receive a donation tax credit for any premiums that you pay. If you have an old life insurance policy, consider transferring ownership to a charity. You’ll be entitled to a donation tax credit for any cash value that might exist, along with a credit for any premiums that you continue to pay. Finally, you can continue to own a policy and name a charity as the beneficiary. In this case, you won’t receive tax relief for the premiums paid, but your estate will receive a tax credit equal to the proceeds distributed to the charity upon your death.

Consider an insured annuity. Consider arranging a life insurance policy to be owned by a charity, then purchase an annuity personally that pays enough cash flow each month that you can donate that cash monthly to the charity to cover the premiums on the policy. Alternatively, you could donate a lump sum to the charity today for the charity to acquire the annuity contract, the payments from which can be used to pay for the insurance. You’ll be entitled to a donation credit for any lump sum or monthly amounts donated to the charity.

Consider leveraged giving. If you don’t have the cash to donate today, but are expecting a bonus or dividends early in the new year, consider borrowing briefly to make a donation to charity in 2020, then pay off the loan when you receive the cash in the new year.

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