



CESTNICK

TAX MATTERS

How to make donations that make a difference – for charities and for you at tax time

SPECIAL TO THE GLOBE AND MAIL
PUBLISHED NOVEMBER 25, 2021

My good friend Paul told me that he wants to make donations before year-end. “Tim, if Bill Gates were to donate 30 per cent of his net worth to charity he’d be praised as a hero. When I try to donate 30 per cent of my net worth, the charity tells me they don’t issue donation receipts for gifts under \$10. How is that fair?”

We had a good laugh, and then talked about the different ways Paul could give to charity this year. Consider these ideas before year-end to make a big difference for charities that matter to you.

Saving taxes for doing good. Generally, for every \$1,000 donated, tax savings in 2021 range from \$445 to \$540 for a high-income earner with income over \$216,511, to between \$405 and \$500 for someone at or below that amount (the actual tax savings depend on your province or territory of residence). You can usually claim maximum donations of up to 75 per cent of your net income (100 per cent in Quebec), but this limit is effectively

increased to 100 per cent of net income for donations of certain types of assets (ecologically sensitive land and certified cultural property, for example). Donations can also be carried forward and claimed in any of the following five years.

Make a gift in kind. Rather than donating cash, consider a gift in kind, which commonly includes donations of securities (which I’ll talk about in a minute), artwork, real estate or even private company shares. You can receive a donation receipt for the fair market value of the assets on the date you make the donation. But you’ll also be deemed to have disposed of the assets at that same value, which could give rise to a capital gain or loss when you make the donation. Generally, the donation tax credit will offset any taxable capital gain.

There are also rules that can allow you, when donating capital property, to make an election to designate a value for the gift at any amount between your cost and the fair market value (to avoid or

minimize a taxable capital gain), in which case the tax credit for your donation will be based on the value you designate. In most cases, folks don't bother with this election since, as I said, the tax savings from the donation credit usually offset the taxes anyway.

Donate securities rather than cash. In most cases, you'll be smart to donate publicly traded securities (stocks, bonds or mutual funds, for example) that have appreciated in value, rather than cash. The reason? Canada's tax laws will eliminate the tax on the capital gain in this case and will provide a donation tax credit.

Suppose, for example, that you want to donate shares of a public company worth \$2,000 to charity. And suppose that your adjusted cost base (ACB) of those shares is \$1,000. If you sell the shares and donate the cash, you'll face taxes of \$250 (assuming a marginal tax rate of 50 per cent). You'll receive a donation tax credit worth approximately \$1,000 for the cash donation. The net after-tax cost of the donation will be \$1,250 (\$2,000 less the \$1,000 tax credit plus the tax bill of \$250).

Now, what if you donated the \$2,000 worth of shares directly to the charity instead? In this case, you would eliminate the \$250 tax bill on the capital gain, and you'd still receive the \$1,000 donation tax credit. So, the after-tax cost of the donation would be \$1,000 (\$2,000 less the \$1,000 tax credit). You're better off by \$250 if you donate the shares directly.

Borrow to donate. If you don't have the cash to donate today but expect to receive cash early in 2022 (perhaps because of a bonus you'll be receiving, or you plan to pay yourself dividends out of your corporation, etc.), you could borrow the money to donate before year-end, then pay off that loan early in 2022 when you collect your cash.

Make a corporate donation. If the cash available for donations is in your corporation, consider having your company donate instead. Your company will receive a tax deduction (not a credit) for the amount donated. Speak to a tax pro about whether this makes sense, or whether it might make more sense to have your company pay you the cash (which might be taxable) for you to donate personally.

Donate life insurance. I wrote about donating life insurance in a [previous article](#). This can be a great strategy if you have policies you don't need any longer, or you simply want to create larger donations to charity at the time of your passing.

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