

## Life and estate planning

If you contribute to a charity during your lifetime, you are likely to want to make some kind of lasting gift to that charity when you pass on. Recent changes to the Income Tax Act allow 100% deductions for charitable contributions in the year of death and in the prior year as a carryback.

## Charitable giving as a tax strategy

The structure and timing of a donation can result in significant tax credits and potential tax benefits. Particularly where growth assets, annuities and insurance products are used, a professionally planned donation will not only benefit the intended charities but will also filter back the benefits to the donor's heirs.

## Creating a lasting legacy

While you can state the intended purpose for the funds, if the terms are too stringent, the charity may decline the contribution, or may be legally entitled to accept the funds and control them as it sees fit.

Where the contribution is substantial to the charity, an endowment may be appropriate to carry out your wishes.

***Consultation with the charity and with an informed professional advisor is prudent.***

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*This brochure is intended to assist individuals in understanding certain concepts of wealth & estate planning, and may contain tax and legal information specific to one or more provinces within Canada. It is not a substitute for consultation with a competent professional. Specifically, this is not a legal, tax or investment opinion on any particular planning strategy or personal fact situation. Interested readers are encouraged to contact a competent professional advisor to further assist them.*

# Tax benefits of *Charitable Giving*

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*While the charity itself must always be the primary determinant in the giving decision, tax benefits should be carefully reviewed by a potential donor.*

*A well structured charitable donation will achieve both its philanthropic purpose and allow the donor to reap rewards available under the Income Tax Act.*



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## Charitable giving

Charitable giving is a practice that the government promotes as a matter of public policy, in large part by way of favourable treatment under the Income Tax Act.

### Maximizing the charitable credit

Contributions up to \$200 entitle the donor to a credit at the lowest federal tax rate, while donations in excess of \$200 entitle the donor to a credit at the highest rate.

Some simple planning strategies can help you maximize the credit:

- Use the carry forward provisions to accumulate multiple years' donations on one year's tax return
- Aggregate charitable donations on one spouse's return

### How much can be contributed?

Currently an individual can contribute an amount which is equal to up to 75% of that person's net income.

In addition, for gifts of property that may have capital gains, special rules are in place to effectively neutralize capital gains tax and possibly result in a net tax benefit to the donor.

## What can be donated?

While cash is the common and obvious form of donation, alternative forms may have preferred tax and legal effects.

### *Capital property*

Land, buildings and other fixed assets can be contributed to a charity. A special tax credit can offset tax exposure due to capital gains.

### *Investments*

Donation of qualified securities may allow a donor to as much as halve the tax on the capital gains.

### *Annuities*

For an agreed capital contribution, a charity will pay to the donor a fixed annual sum for a number of years or for the life of the donor.

### *Life insurance policies*

An insurance policy can provide either current or future tax benefits to the donor, depending on who owns the policy and whether the estate or charity is the named beneficiary.

### *RRSPs and other pension plans*

A charity can be named as a beneficiary. Care must be taken to be clear whether the donation is before or after the tax on the pension.

### *Remainder interest*

Donating a remainder by trust or directly you may "have your cake and eat it, too" in that you will continue to enjoy the use of your property for life, and be assured that it goes to the charity upon your death.

## Where can the donation go?

In addition to traditional charities for religious, educational and social objects, other potential donees might include:

- Amateur athletic groups
- Housing corporations
- Universities and colleges
- Government agencies
- Museums
- Qualified foreign charities
- United Nations' agencies

### What are the limitations?

Knowing what can't be done can save a significant amount of effort and cost. Donations that do not qualify:

- Donations to a person directly
- Goods with no commercial value
- Goods already expensed by a business
- Payments under which the donor receives cash or other benefit in return (except for nominal recognition gifts)
- Otherwise unqualified foreign charities

### **WARNING - Donating artwork**

CRA has curtailed art donation arrangements whereby the donor buys artwork and donates it at a significantly higher appraised value. Consult with an independent tax or legal advisor before entering into such an arrangement.