

## A CHARITABLE TAX CREDIT PRIMER

To help you understand and claim all of the charitable tax credits to which you are entitled, we offer this primer on the charitable tax credit system in Canada. You should, of course, contact your own tax advisor regarding its application to your particular situation.

### The Federal Tax Credit

Individuals are entitled to a tax credit, rather than a deduction, for charitable gifts. The federal tax credit for residents of all provinces except Quebec is 15% of the first \$200 of total annual gifts and 29% of the excess.

For example, if you live outside Quebec and contribute \$300 to each of five different charities, your federal tax credit would be:

$$\begin{array}{rcl} \$200 \times 15\% & = & 30 \\ \$1,300 \times 29\% & = & \underline{377} \\ \text{Total} & & \$407 \end{array}$$

The 15% credit applies to the first \$200 of total gifts, not to the first \$200 of gifts to each charity.

**Note:** See below for a brief explanation of the tax credit in Quebec. (*If you have no donors in Quebec, you may omit this note and the explanation below.*)

### The Provincial Tax Credit

In addition to a federal tax credit, donors receive a provincial credit, the size of which varies (in the case of charitable gifts in excess of \$200) from approximately 12% to 21%, depending on the province or territory. In certain provinces, such as Ontario, that have a provincial surtax, the credit percentage for high-income donors is somewhat higher than for other donors. That is because the credit reduces the tax on which the surtax is calculated.

In most provinces, the combined federal and provincial credit for charitable gifts in excess of \$200 will be approximately the same as the top combined federal and provincial tax rate, which varies from about 39% to nearly 50%. A notable exception is Alberta where the combined credit is 50% whereas the top combined tax rate is only 39%.

Suppose a donor lives in a province where his combined federal and provincial tax credit for gifts in excess of \$200 is 46.4%. During the year he has already contributed \$200 to various charities, and he decides to make an *additional* contribution of \$1,000 to our organization. This gift results in a combined federal and provincial tax credit of \$464 ( $\$1,000 \times 46.4\%$ ), which means that the net cost of contributing \$1,000 is only \$536.

### **Claiming the Tax Credit**

For gifts of cash, the maximum amount of the gift receipt that can be used for a credit in any one year is 75% of net income. If contributions exceed that percentage limit, the excess can be carried forward for up to five years.

The tax rules allow either spouse to claim charitable donations. They may also split the donation, each claiming a portion of it. If they do split it, they will be a “two threshold family,” for each spouse will then have to accept the lower tax credit on the first \$200 of the donation claimed. Thus, it is often advantageous for the entire donation to be claimed by one spouse. However, having the lower-income spouse claim all or a portion of the credit can make sense from the point of view of income splitting. The tax refund can be invested by that spouse, and the income earned on it will be taxed at that spouse’s lower marginal rate.

Another consideration is when to claim the credit. Normally, it should be claimed as quickly as possible so that tax savings can have more time to earn income, but sometimes it may make sense to carry it forward to a high-income year when total tax savings would be greater.

A large tax credit, especially for gifts in excess of \$200, flexibility as to when to claim the credit and the ability to transfer the credit between spouses make it one of the most valuable benefits available under the Income Tax Act.

### **Gifts of Listed Securities**

A person who contributes listed securities, such as stocks, bonds, and mutual funds, receives a double benefit. The donation receipt is for the current fair market value, and the capital gain is not taxed. Thus, individuals considering a lifetime or end-of-life gift to a charity should consider making the gift with listed securities and giving other assets to heirs.

If real estate, other than a principal residence, and certain other property is contributed, the donor will be taxed on 50% of the gain, the same as if the property had been sold. Nevertheless, the tax credit, which is based on the appraised fair market value, will exceed the tax and result in net tax savings. For these kinds of gifts, the contribution limit for claiming the credit is 75% of net income plus 25% of the taxable gain arising from the gift.

## Super Credit for New Donors

To encourage people to start making charitable contributions, a super-credit for first time donors was recently enacted. A new donor receives the normal credit plus a super credit equal to 25% of the contribution. Suppose, for example, that a first time donor contributes \$600 to a charity. The federal tax credit would be determined as follows:

Federal credit for the first \$200: \$30 (15% x \$200)

Credit for the next \$400: \$116 (29% x \$400)

Super credit: \$150 (25% x \$600)

Total federal credit: \$30 + \$116 + \$150 = \$296

**Note:** The donor would also receive the normal provincial credit, but it is not augmented by a super credit.

## Tax Credit in Quebec

Both the federal tax rate and the federal tax credit are different for Quebec residents than for residents in other provinces and territories. A Quebec donor would receive a federal tax credit of approximately 24.2% for gifts in excess of \$200. As noted, the federal tax credit for those living elsewhere in Canada would be 29%. The Quebec tax credit for gifts in excess of \$200 is 24%, so the combined tax credit for such persons is 48.2%. This is slightly less than the top combined federal and Quebec tax rate.

The contribution percentage limits for claiming the credit are the same in Quebec as in other provinces and territories. Likewise, residents of Quebec are not taxed on the capital gain in gifts of appreciated listed securities.

## For More Information

You may give a variety of assets to [Charity]: cash, of course, but also securities, real estate and tangible property. You may also designate your gift for different purposes including an endowment. For more information about the charitable tax credit or for a gift arrangement appropriate for you, please contact us at \_\_\_\_\_.