Christianson Wealth Advisors

Clear Thinking.

Donating to Charity: Good, Better, Best

Most donations are made with cash. Aside from being easy and accessible, cash is pretty much the only way most people have ever donated. There are a few other ways and, while they won't apply to everyone, they can come with huge tax benefits. Here, we demonstrate three different ways to donate. In the examples, we'll talk about a Manitoban[1] who makes $100,000 per year in gross income[2] and makes $5,000 of annual donations.

Good: Donate cash

Cash means more than just literal dollar bills. It means any cash-like donation including cheque, e-transfer, credit card, or any online payment method.

- ✓ **You get a tax credit of around 45% of the amount you donate.**

  The credit reduces federal and provincial taxes by a combined $2,280. The exact amount of the credit depends on your circumstances[3], but 45% is a good general rule.

This **$5,000** donation costs **$2,720**

Better: Donate assets that have increased in value

Say you have $5,000 of cash and $5,000 of Apple shares which have doubled since you bought them. If you donate the cash, you're in the **Good** category. If you donate the securities, it gets **Better**. Here's how:

- ✓ **You get a tax credit of around 45% of the amount you donate.**
- ✓ **You do not have to pay capital gains tax on securities you donate.**

  The CRA forgives capital gains tax if you donate securities to charity. One strategy is to donate the security and use your cash to buy it back. This would save you another $474 in taxes.[4]

This **$5,000** donation costs **$2,720,** PLUS you avoid paying **$474** in capital gains tax

Best: Donate assets to a Donor Advised Fund

If you want to keep making $5,000 donations every year and you have $100,000 of Apple shares which have doubled in value, contributing them to a Donor Advised Fund might be the **Best** strategy.

- ✓ **You get a tax credit of around 45% of the amount you donate to the DAF.**
- ✓ **You do not have to pay capital gains tax on securities you donate.**
- ✓ **Investments in a DAF grow TAX FREE until you distribute them to a charity.**

  Once inside the DAF, the investments will be sold (tax-free) and invested in a balanced portfolio. This way, you could use $5,000 of the DAF this year to make your donation for the current year and leave the rest for the funds to grow tax-free until you are ready to distribute them in the future.

This **$5,000** donation costs **$2,720.** Plus, you save more than **$1,000** in tax next year if the remaining funds earn 5%

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

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Important Notes:

1. The federal government gives a tax credit of 15% on the first $200 of annual donations and 29% on anything above that. Provincial governments set their own rules for tax credits. Here are the tax credit rates for each province:

		BC	AB	SK	MB	ON	NS	Range
Provincial	First $200	5.06%	10.00%	10.50%	10.80%	5.05%	8.79%	5-10%
Provincial	Over $200	16.80%[a]	21.00%	14.50%	17.40%	11.16%	21.00%	11-21%
Combined Federal & Provincial	First $200	20.06%	25.00%	25.50%	25.80%	20.05%	23.79%	20-26%
Combined Federal & Provincial	Over $200	45.80%[a]	50.00%	43.50%	46.40%	40.16%	50.00%	40-50%
Total Credit (%)	$1,000 Donation	41%	45%	40%	42%	36%	45%	36-45%
Total Credit (%)	$5,000 Donation	45%	49%	43%	46%	39%	49%	39-49%
Total Credit (%)	$10,000 Donation	45%	50%	43%	46%	40%	49%	40-50%

[a] Could be as high as 20.5%, depending on your income.

2. Taxable income can affect the credit you receive in a few ways:
   - It sets a maximum on how much of your annual donations you can claim in one year. The current limit is 75%. If you donate more than this amount, unused donations can be carried forward for up to 5 years.
   - In some provinces, the donation credit rate is based on your personal marginal tax rate.
   - If your income is more than $200,000 in a year, you may be eligible for a higher federal tax credit.
3. In this example, the total tax credit of $2,278.80 is broken down as follows:
   - Manitoba Provincial
     - $21.60 = 10.8% on the first $200
     - $835.20 = 17.4% on the other $4,800
   - Federal
     - $30 = 15% on the first $200
     - $1,392 = 29% on the other $4,800
4. With a marginal tax rate of 37.9%, there would be $474 in taxes on the capital gain ($2,500 × 50% inclusion rate × 37.9% tax rate). If you were to sell the security today, this would be owed in the current year. Otherwise, the capital gain represents a future tax liability because you will owe tax at some point in the future. By donating the securities, you avoid ever having to pay tax on the gain to date.

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