PLANNED GIVING

The Most Common Types of Planned Giving Gifts and Their Tax Effect

Generally, donors can claim a tax credit as follows:

- Federal tax credit is 15% of the first $200 of charitable gifts.
- Federal tax credit is 29% of gifts in excess of $200.
- Donors can claim maximum annual charitable contributions equal to 75% of income.
- Charitable contributions in excess of the annual limit can be carried forward 5 years.

ESTATES

Estate tax credits are as follows:

- Federal tax credit is 17% of the first $200 of charitable gifts.
- Federal tax credit is 29% of gifts in excess of $200.
- Gifts made in the year of death and through the estate can equal 100% of income on date-of-death tax return and can be carried back 1 year (executors can re-file the deceased's previous year's tax return).

Gifts through a Will usually take two forms: **outright gifts** of a specified cash amount or a portion (usually a percentage) of the **residue of the estate**. The residue of the estate is the amount left after the expenses, taxes and other bequests have been paid. Gifts of residue often prove to be the larger of the two forms of gifts.

Donors can also leave charitable gifts through testamentary trusts in their Wills. Typically, a trust is established to allow the surviving spouse (or other individual) to receive income from the estate assets during their lifetime and eventually the charity will receive the capital assets upon the death of the income beneficiary.

PLANNED GIVING

PUBLICLY LISTED SECURITIES

The reason why many donors are attracted to the idea of giving publicly listed securities is because of the preferred tax treatment offered by CRA on these gifts. If a donor has a capital gain in their investment, they can gift the actual security instead of selling the investment and giving cash. By doing this, they will pay no tax on the capital gain, instead of tax on 50% of the gain had they sold the security and given cash.

The yearly contribution limit for charitable donations of appreciated publicly traded securities is 75% of the donor’s net income.

Also, donors can get rid of underperforming securities by gifting them. In addition, they can gift shares that are still expected to appreciate but use the tax savings plus cash to repurchase the shares (after waiting 30 days). This allows the donor to “step up” the cost base of the shares.

The gift of securities is usually valued at the market close, the day it is received into the charity’s brokerage account and the donor will receive a tax receipt based on that amount.

INSURANCE

There are various ways in which a donor can contribute life insurance to a charity. Generally the gifts fall into the following categories:

1. The donor irrevocably transfers ownership of a paid-up policy to the charity, and the charity is named beneficiary.

2. The donor irrevocably transfers ownership to the charity of a policy where they continue to make payments either annually or in one lump sum, and the charity is named beneficiary.

3. The donor names the charity as the beneficiary of a policy.

4. The donor names their estate as the beneficiary of the policy and includes a gift in the Will equal to the proceeds of the policy.

The tax treatment of the life insurance gifts itemized above is as follows:

1. Donors receive a tax receipt for any eligible amount of a paid up policy (this is usually an actuarial calculation).

2. Donors receive a tax receipt for any eligible amount of a partially paid up policy and tax receipts for ongoing premium payments (either annual or lump sum).

3. The donor's estate will receive a tax receipt for the proceeds of the policy; the gift is not subject to estate probate fees.

4. The donor's estate will receive a tax receipt for the amount equal to the proceeds of the policy; the gift is subject to estate probate fees.

TRUSTS

A Charitable Remainder Trust is one type of trust that is a well-known gift planning vehicle and can be a useful tool for the right donor and in the right circumstances.

The donor settles the trust by irrevocably transferring assets to the trust. The assets can include cash, securities, other acceptable investments, and real estate. The donor receives an immediate charitable tax receipt for the present value of the remainder interest (this is an actuarial calculation). In addition, the donor will receive the income that the assets produce, for the life of the donor or for a period of years. At the end of this period, the charity will receive the remaining assets in the trust.

RRSPs and RRIFs

Donors can make a future gift to a charity without sacrificing lifetime retirement income. The typical donor who considers this type of gift will be single with no dependants, or the last survivor of a couple with no children. In addition, those donors who are concerned about the taxation of their RRSPs on their death will look for tax relief in this way.

PLANNED GIVING

At death, all the assets of an RRSP/RRIF will be taxed as income on the deceased's final tax return. As a result, almost half of the retirement plans' assets will usually be lost to taxation unless a charitable gift is made. If the gift of the entire RRSP/RRIF is made, the tax receipt will more than offset the taxes owing. If even a portion of the RRSP/RRIF is given, most or all taxation on the RRSP/RRIF can be eliminated through careful planning.

ANNUITIES

A charitable annuity is an arrangement where a donor transfers cash to a charity and in return the charity pays the donor a guaranteed income for life (or for a set number of years, or for the life of another named individual). The annuity payments are all or partly tax free to the donor.

Self Insured Annuity: The charity invests the funds, making payments to the donor that are backed by a guarantee on the charity's assets.

Reinsured or Gift Plus Annuity: The charity retains a portion of the funds for its own use and uses the rest to purchase an annuity from a life insurance agent.