

- **Cash** has traditionally been the most used form of donation. It maximizes the donation to the charity, but the donor should remember that his or her donation comes from after-tax funds. The charity receives \$1,000 and the donor's after-tax cost is \$663.
- **Gifts of publicly traded securities** (for example, shares or units of mutual fund trusts) are now more favourable than other gifts. For publicly traded securities that are donated directly to a charity, the federal budget of May 2, 2006 eliminated any capital gains taxes owing in connection with the making of such a gift, making this option less costly to the donor. For a gift with a cost base of \$500 and a fair market value of \$1,000, the charity receives \$1,000 and the donor's after tax cost is \$550. If you are considering both making a donation and selling publicly traded securities, consider giving the security directly to the charity. Both you and the organization will benefit: you will have no income tax to pay on any capital gain and the cost to you will be less than if you had sold the security and donated the after-tax amount to the charity; and the charity will benefit from the full value of the security, rather than just the cash remaining after the taxes are paid had you disposed of the securities and made a gift for the net amount. If you hold securities with accrued capital gains, consider donating the securities with the highest accrued gain to the charity.
- **Property** (other than publicly traded securities and cultural property) **donated directly to a charity** has a higher after tax cost because income tax is payable by the donor on the taxable portion of the capital gain realized on disposition of the property at the time of the making of the gift. Because of the added tax, gifts of such property are generally less favourable. For a gift with a cost base of \$500 and a fair market value of \$1,000, the charity receives \$1,000 and the donor's after tax cost is \$663.

### Gifts of cultural property

Cultural properties are objects recognized by the Canadian Cultural Property Export Review Board, in accordance with guidelines to determine importance and interest as set out in the *Cultural Property Export and Import Act*. The gift of such an object to an establishment or administration in Canada dedicated to a purpose relating to the object, in accordance with this law, is subject to specific tax rules. The fair market value of such an object is determined by the Board and is presumed to be both the object's fair market value and the proceeds of disposition for the donor. In addition, the donor can

claim donations of up to 100% of net income in the year of the gift; they are not restricted by the usual 75% of net income rule. Finally, the gift of such an object does not give rise to a capital gain for the donor, even if the object's fair market value exceeds its cost to the donor.

### Tips for making donations

There are several ways that you can maximize the tax advantages of your donations:

- Ensure that you are making a donation to a qualifying organization. A valid donation receipt must include, among various other requirements, the organization's registration number.
- Since donations totaling in excess of \$200 realize a donation tax credit at a higher rate, you can increase your tax savings either by aggregating your donations made over the previous 5 years within a given tax year rather than declaring them in each of the years in which the donations were made. In addition, by administrative practice, the CRA will allow you to aggregate the cash donations made by you and your spouse or common-law partner and claim them on one or the other's tax return, regardless of whose name appears on the receipt.
- Consider the form of your gift. Depending upon the circumstances, a donation of publicly traded securities may be more advantageous than donations of other property. In some cases, however, a gift of other property will be of particular benefit to the donor. Specifically, if you own other property that would be otherwise difficult for you to sell, such as a collection of letters of a historical nature, donating the collection to a charity will relieve you or your estate of the effort required to sell it in the future. In this case, an appropriate valuation must be undertaken.
- You can donate up to 75% of your net income in a given tax year. Any portion of a donation that exceeds the 75% limit may be carried forward and used for a donation credit in any of the next five years. In the year of the donor's death and the prior year (although only determined in retrospect, and requiring the filing of an adjustment to that return), the limit is increased to 100% of his or her net income. In addition, in the case of Crown gifts, cultural gifts and ecological gifts, the limit is also increased to 100% of net income.

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# Tax and Your Charitable Donations

A Guide for Donors



Audit • Tax • Consulting • Financial Advisory.

## Why should I make a charitable donation?

Donating to your local charity, hospital, university or foundation allows you to contribute to your community and help ensure that the essential services these organizations provide will continue. It will also provide you with tax savings through the **charitable donation tax credit**. If your donation qualifies, this credit directly reduces the amount of tax you owe in the year you claim the credit.

To take full advantage of the credit, you must ensure that you make a qualifying donation to a qualifying organization.

## What is a qualifying donation?

As a donor, you have a great deal of flexibility in determining the form of your gift.

Qualifying donations include:

- cash;
- property, including:
  - securities (e.g. shares),
  - real estate,
  - certified cultural property (i.e. works of art that have “cultural significance” in Canada),
  - ecological property;
- life insurance policies;
- residual/remainder interests (where ultimate ownership of a property is transferred to the charity, but the donor temporarily retains the use or income interest).

Since 2002, a donation can qualify for a donation credit even if the donor receives an advantage or benefit (e.g., donations made to a charity for a silent auction or a fund raising golf tournament). The advantage or benefit can take several forms (cash, assumption of debt, services and other benefits or income). In addition, the advantage or benefit can be provided by the charitable organization or by another entity, to the donor or to a related person.

The portion of the donation that could give rise to the issuance of an eligible donation receipt generally corresponds to the excess of the fair market value of the property transferred as a donation over the fair market value of any advantage or benefit received by the donor. The advantage or benefit is deemed nil if it is lower than or equal to the lesser of \$75 or 10% of the fair market value of the property gifted. Moreover, if the advantage or benefit exceeds 80% of the fair market value of the transferred property, the donor must satisfy the Minister that the transfer was made with the intention to make a gift; otherwise no donation receipt can be issued.

At an auction, the acquirer of a property is entitled to a receipt for a donation if the fair market value of the property auctioned is determined and announced in advance and if the amount of the auction corresponds to the minimum at 100/80 of the fair market value of the property. In the case of certain donations deemed excessive by the tax authorities, the *Income Tax Act* deems a fair market value for the donated property, and this fair market value would be equal to the lesser of the actual fair market value or the cost of the donated property for the donor.

## What will not qualify as a charitable donation?

Even if the following gifts are made to a qualifying charity, they will not be considered charitable donations:

- Cost of lottery tickets.
- Donations of services.
- Gifts for which you receive an advantage or benefit whose value exceeds 80% of the fair market value of the donated property, unless the Minister recognizes that you intended to make a donation.
- Donations to non-registered organizations (e.g. certain community organizations).

For tuition fees paid to private schools, the portion of fees covering religious instruction may qualify for a donation tax credit.

## Which organizations qualify?

Gifts to the following organizations qualify for the donation tax credit:

- Registered charities.
- Registered Canadian amateur athletic associations.
- The United Nations and any of its agencies.
- Certain housing corporations resident in Canada.
- Many universities outside Canada.
- U.S. charities, if you have U.S. income (certain restrictions apply).
- Certain charitable organizations outside Canada to which the Government of Canada has made a gift during the year or the previous year.
- Her Majesty in Right of Canada or of a province, and a Canadian municipality.

To qualify as a Canadian charity, an organization must be registered with the Canada Revenue Agency.

## How much tax can I save?

The first \$200 of your total annual donations for 2006 qualifies for a federal tax credit of 15.25%. Total donations in excess of \$200 qualify for federal tax savings of 29%. Because donations give rise to tax credits for individuals and not deductions from income, the tax savings received through making donations is not directly affected by your level of income.

## What form should my donation take?

The tax advantages of a donation may vary according to the form the donation takes. As well, the value of a gift of cash is indisputable, but the value of a donation of property could potentially come under the scrutiny of the tax authorities.

## After-tax effects of the different forms of donation

The chart below illustrates the after-tax effects of three common types of donations for the same amount, for example of \$1,000. The calculations assume that the cash donation results from the sale of property with a cost base of \$500, that the donor pays tax at 45%, that the purchase cost of the property (other than cash) is \$500, and that the donation is in addition to other donations of at least \$200.

