

- **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 the tax funds. The charity receives \$1,000; cost to the donor is \$638.
- **Gifts of publicly traded securities** (shares, accounts receivable, units of mutual fund trusts, shares of variable capital investment) are now more favourable than other gifts. For publicly traded securities donated directly to a charity (other than a private foundation), the federal budget of May 2, 2006 changed the policy and cancelled any capital gains taxes owed, making this option less costly to the donor. The charity receives \$1,000; donor cost is \$518. (This takes into account Revenu Québec's announcement that it intends to adopt the modifications proposed in the federal budget.) If you are considering both making a donation and selling publicly traded securities, consider giving the security directly to the charity instead. 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 product 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. If you hold securities of this sort, 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 tax cost because the full capital gains taxes are payable by the donor. Because of the added tax, gifts of such property are generally less favourable. The charity receives \$1,000; donor cost is \$638.

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. Thus 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 taxpayer. As well, if the deduction for the donation is claimed in the year the gift was made, this deduction can achieve up to 100%, rather than 75%, of the donor's net income. Finally, for the donor, the gift of such an object cannot give rise to a capital gain, 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, and that you get a receipt which clearly shows the organization's registration number.
- As the portion of donations over \$200 earn a tax credit at a higher rate, you can increase your tax savings either by aggregating your donations within a given tax year rather than declaring them over two years, or by pooling them and declaring them only when the total exceeds \$200. You can also include all donations in the tax return of the spouse who earns the higher income, regardless of whose name appears on the receipt.
- Consider the form of your gift. Donations of cash or publicly traded securities will often 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. For instance, if you own other property that would be otherwise difficult for you to sell, such as a collection of letters of a historical figure, donating that collection to a charity will relieve you and your estate of attempting to sell it in the future. In this case, a valuation must be undertaken.
- You can donate up to 75% of your net income in a given tax year and still qualify for the credit. Any portion of a donation that exceeds the 75% limit may be carried forward and used for a credit in any of the next five years. In the year of donor's death and the prior year, the limit is increased to 100% of net income.

www.deloitte.ca

Member of
Deloitte Touche Tohmatsu

© Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and affiliated entities. This document is not intended to substitute for competent professional advice. No action should be initiated without consulting your professional advisors.

Deloitte.

Samson Bélair/Deloitte & Touche



Tax and Your Charitable Donations

A Guide for Donors
in Quebec

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 donations 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 may qualify if the donor receives a partial consideration. The eligible value of the donation that could give rise to the issuance of a 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 consideration received by the donor. The consideration 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 given. Moreover, if the consideration exceeds 80% of the fair market value of the transferred property, the donor must obtain the Minister's approval to the effect that he intended to make a donation; otherwise no donation receipt can be issued. The consideration can take several forms (cash, services and other benefits or income). The consideration also includes a benefit provided by the organization or by another entity to the donor or to a related person.

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 auction amount 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* stipulates a fair market value deemed for the given property, and this fair market value corresponds to the lesser of the actual fair market value or the cost of the given 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 a benefit or a consideration whose value exceeds 80% of the fair market value of the given property, except if 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 federal tax credit.

Which organizations qualify?

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

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

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

How much tax can I save?

The first \$200 of your total annual donations for 2006 qualifies for a combined tax relief of 32.73% for a Quebec resident. Total donations in excess of \$200 qualify for tax savings of 48.22%. Because donations give rise to tax credits and not deductions from income, the tax savings from making donations is not affected by your income.

What form should my donation take?

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 eventually come under the scrutiny of 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 of the same amount 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 the maximum rate (48.22% in 2006), that the purchase cost of the property is \$500, and that the donation is added to other donations of at least \$200.

