4 Strategies for Tax-Efficient Charitable Giving

Although there seems to be a greater focus on philanthropy during the holidays, at Investia our employees, advisors and partners are in the giving spirit year-round. Over the past two years, we've raised over $300,000 in support of United Way through ongoing donations. Charitable giving is embedded into our company's fabric, as it is in our parent company – iA Financial Group – which has a longstanding commitment to community involvement.

If giving back to the community is important to you as well, here are four tax-efficient ways to donate to charitable organizations any time of year.

1. **Donor-Advised Funds**

   Offered by most community foundations and some asset managers, a donor-advised fund (DAF) outsources the functions typically performed by a charitable foundation.

   With DAFs, you make a significant donation and immediately claim the tax credit in the same year, but can defer disbursing the funds until another year (or years). This provides flexibility to accommodate your overall philanthropic strategy, and the organization will take care of future disbursements and administrative tasks.

2. **In-Kind Stock Donations**

   It's tax effective to donate publicly listed stocks (or other qualified securities, like mutual funds, exchange-traded funds, and bonds) that have gained in value. That's because donations of publicly traded securities are exempt in Canada from the capital gains tax that would otherwise apply when selling securities at a profit.

   Consider this example. Years ago you purchased 1,000 shares of a stock at $20 per share, and the per-share value has risen to $50, which means you gained $30,000. You could sell these shares and donate the proceeds to a registered charity, but you'll face capital gains tax. Assuming capital gains tax on 50% of your gain, $15,000 is taxable at your marginal tax rate, leaving less money from the stock sale available for charity. However, when making an in-kind stock donation, the gain isn't subject to capital gains tax, which means the charity can access the full $50,000 and you receive a donation tax credit for the same amount.

3. **Flow-Through Share Donation**

   Flow-through shares are specially designated shares of companies engaged in mining and energy-related industries. The Canadian government offers tax incentives to promote support of these industries by allowing investors to deduct from their income certain exploration and development expenses incurred by the companies. While this incentive reduces taxable income, any sale of flow-through shares will trigger capital gains equalling the sale proceeds (i.e., the entire amount is considered a capital gain).

   However, gifting shares to a registered Canadian charity as a Flow-through Share Donation (FTSD), in accordance with Canada Revenue Agency tax rules, may meaningfully lower your after-tax donation. You register this donation as a tax shelter and, through a number of prescribed transactions – too complex to detail in this article – you can make a large share donation that'll only cost you a fraction of the amount (typically between 5% to 15% of the donation value). You must be an accredited investor to qualify for FTSD.

4. **Life Insurance**
   Another tax-efficient method of supporting charities is through a life insurance policy. You may wish to consider donating your policy now or in the future. To do it now, simply name the chosen charitable organization as beneficiary and owner of your existing policy. You'll receive a donation tax receipt for the policy's cash surrender value. You'll need to deduct any loan amount outstanding on your policy, but to help offset that, your tax receipt amount can include dividends or interest accumulated in the policy.

   To make your charitable gift later, you remain the policy owner and pay all policy premiums. The charity is named as beneficiary and the death benefit they receive won't be subject to probate taxes because it will be paid outside your estate. When the policy proceeds are paid to your chosen charity after you die, the donation tax credit in your name can be used to lower the tax obligation on your terminal income tax return.

To learn more about how we can incorporate charitable giving into a wealth plan that suits your needs, please contact us today.