BY KEVIN WARK

Decline in Donations

Educate clients on how charitable giving can play a role in estates

The Canadian tax system offers generous incentives for those wishing to make contributions to their favourite registered charity. And unlike the recent government trend of reducing or eliminating access to tax benefits and credits, the rules governing charitable donations have in fact been enhanced over the past decade. Let's consider the rules governing charitable gifting, the current status of charitable gifting in Canada, and the important role advisors can play in facilitating the philanthropy of their clients.

The main tax benefits associated with making a charitable contribution may be summarized as follows:

- For total donations more than $200, a federal tax credit of 29 per cent (or 33 per cent for those in the top marginal tax bracket) is provided. There is also a provincial charitable tax credit, often at the top provincial tax rate. Thus, for many Canadians, the value of the tax credit will exceed their own marginal tax rate. In these circumstances a dollar of charitable contributions will shelter more than a dollar of taxable income from taxes.
- It is possible for a married couple to pool their charitable contributions and have one of them claim the tax credit to maximize the additional tax benefit for gifts of more than $200.
- The charitable gifts that may be claimed in the year is typically limited to 75 per cent of the taxpayer's net income for the year. However, where a person gifts appreciated capital property to a charity, the income limit is increased by 25 per cent of the capital gains (and recapture of depreciation) arising from the gift.
- Where the gift consists of public securities (for example, shares of a public corporation or units in a mutual fund/segregated fund) the capital gain arising from the disposition is reduced to nil. This makes gifting appreciated securities very attractive as it significantly reduces the after-tax cost of the gift.
- Where a gift arises due to the death of the donor (including naming a charity as a beneficiary under a life insurance policy or RRSP/RRIF) the executors of graduated rate estates have the discretion to allocate the charitable donation credit to offset up to 100 per cent of income arising in the year of death, as well as the prior taxation year of the deceased.

As can be seen, there are some powerful tax incentives for making a charitable contribution, both while alive or upon death.

A gift of the estate residue to one or more charities is one way of ensuring the results of a life's work is ultimately put to good use.

Given the tax support being provided for charitable gifting, it may come as somewhat of a surprise that there is a negative long-term trend in charitable gifting by Canadians. A recent report by the Fraser Institute entitled *Generosity in Canada and the United States – The 2018 Generosity Index* indicates that from 2006 to 2016, the number of Canadians claiming at least one charitable donation in their tax return has decreased to 20.4 per cent from 24.6 per cent. This report also indicates that Canadians are donating a smaller share of their household income to charities — 0.53 per cent in 2016 compared to 0.78 per cent in 2016. As a result, charitable contributions by Canadians fell by almost $1 billion from 2015 to 2016. In fact, charitable gifts would have been $4.3 billion higher in 2016 had Canadians continued to make donations at the same rate as in 2006.

There are many possible reasons for the declining rate of charitable contributions by Canadians. More pressing financial concerns is likely one of them. The younger generations are struggling with educational debt, saving to purchase a home, and taking care of young families. In turn, the Boomer generation is trying to help their children, accumulate for retirement, and support their aging parents. The older generation is increasingly worried about living too long and running out of money. Truly, for many Canadians, charity starts (and stops) at home.

However, that does not have to be the end of the story. Many of these same individuals may be more comfortable taking a longer-term view on gifting by providing a bequest to a charity through their will. This may particularly be the case when they understand that the tax savings arising from the charitable gift can help offset other taxes that are triggered by their death.

You may have other clients that are contemplating the surrender of their life insurance policy, as they feel they no longer need the additional liquidity on death. You can show them how they can make the premium tax deductible by transferring the policy to a charity, while receiving public recognition for the much larger gift on death. Alternatively, the charity could be designated as beneficiary under the policy, with your client receiving both the public and tax recognition for the charitable gift on death.

You may also have older, wealthier clients who no longer have any close family members. A gift of the estate residue to one or more charities is one way of ensuring that the results of their life's work is ultimately put to good use, while also eliminating taxes that might otherwise arise in their final tax return.

The estate planning process offers a terrific opportunity to involve your clients in a philanthropic discussion. Through this educational process, you will not only help your clients better understand the benefits of charitable gifting, but may also engage them in a more regular gifting program that will help reverse the troubling trendline for Canadian generosity. F

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