aviso wealth

Three tax strategies for charitable giving

Making the most of the donation tax credit

You support your favourite charitable causes because you care. You donate your time, whether it is simply spreading their message to others or more directly through volunteering. Moreover, if you don't have the time, you can still contribute to the cause by donating money.

Even though your motivation to provide support financially is borne out of a desire to help further the cause, you would be remiss not to consider the favourable tax credit that comes with charitable donations.

Don't apologize for the tax break

Some people may think it is distasteful to talk about tax breaks in the same breath as charitable giving. Shouldn't it be about the caring, and not about cashing in?

Undeniably, caring about the cause must be at the core of your decision to donate. At the same time, if you have given out of a kind heart and you are still entitled to a tax break, why would you not claim it? There are at least two ways to look at this:

- Using the tax break allows you to reduce your out-of-pocket cost to donate the same intended amount
- Understanding that the tax break is coming, you can share it with the charity by choosing to give even more

Basics of the donation tax credit

When you make charitable donations, the government gives you a tax credit that reduces your annual income tax bill.

To illustrate how this works, let us consider an annual cash donation of a $100 donation, which may have been given to one or more charities. The federal government and the provincial government will each reduce what you would otherwise owe them in taxes by giving you a tax credit based on the total dollar value of your donations. On average, across the provinces, the donation tax credit rate is around 25%.

In this case, your taxes are reduced by $25. Or to put it a different way, it would cost you $75 to make your donation to the charity and they would have $100 to work with.

Breaking the $200 threshold

If you make charitable donations that total over $200 in any given year, on average across the provinces, the tax credit is increased to around 45%. In other words, you will receive almost half of the donation back from the tax collectors, compared to what you gave to the charity in the first place. In fact, in some provinces, the combined tax credit is actually 50%.

To illustrate how this works, let us consider an annual cash donation of $400. The tax credit received would be:

Donations	Tax credit
First $200 @ 25%	$50
Second $200 @ 45%	$90
Total donations: $400	Total tax credit: $140

In this case, it costs you $260 for the charity to receive $400. That is a deal that continues to get better as you make even larger donations, with additional amounts entitled to the higher tax credit rate.

Combining with your spouse to accelerate into that top tier

There is one simple way to get up to that higher credit rate faster, and that is by combining donations in your household. Spouses are allowed to report their combined donations on one of their tax returns.

If two spouses had each made $200 in cash donations and separately claimed them, the total credit would have been $50 x 2 = $100. But as we saw in that last example, by claiming the donations on one of the spouse's tax returns they would receive a $140 credit, a 40% increase just for filing with this strategy in mind.

Donations	Donations	Tax credit
Spouses donate separately	$400 ($200 each)	$100 ($50 each)
Spouses donate together	$400 (together)	$140 (together)

If you don't have a spouse, you can still be strategic in how you claim donations, by carrying donations up to five years forward. For example, if you consistently make $200 in donations each year, you might defer claiming this year, and claim two years' donations totaling $400 next year.

All it takes is some planning

Charitable giving is first and foremost about being charitable. But when you combine it with being tax savvy, you can make your money go further, whether you take that benefit for yourself or you share it with the charity.

Seeking professional guidance

This article provides a broad overview of charitable donations that are made in cash. Please consult your tax professional to discuss how you can take advantage of this strategy.

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