Ten tax tips for charitable giving as the December deadline nears

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Jamie Golombek
Managing Director, Tax and Estate Planning, CIBC Private Wealth

If you have plans to donate this year, you want to act quickly so as not to miss the Dec. 31 deadline to get a tax receipt for 2023. Here are my top 10 charitable giving tax tips for 2023.

1. Give cash or put it on credit

Giving cash is straightforward and, as with any type of donation, entitles you to a donation receipt allowing you to claim federal and provincial non-refundable tax credits. On the federal side, you get a credit of 15 per cent for the first $200 of annual charitable donations. The federal credit rate jumps to 29 per cent for cumulative donations above $200 and donors benefit from a 33 per cent tax credit on donations to the extent that they have income subject to the 33 per cent top federal rate (over $235,675). Parallel provincial credits work similarly.

Some donors like to put their donations, especially larger ones, on their credit card to earn points, which can later be redeemed for travel, merchandise or other rewards. I still recall a client meeting, nearly a decade ago, with a C-suite executive of a publicly-traded company based in Toronto. When I raised the topic of philanthropy, he boasted that he gave $100,000 annually to a major charity, putting the entire donation on his high-limit credit card. This gave him 100,000 points, which was enough to fly him, his wife and two kids to Florida for a “free” vacation. Value? Maybe $2,000. My advice? He should have donated the $100,000 using his appreciated company stock – had he done so, he would have saved nearly $15,000 in capital gains tax (based on his cost base) – which beats four tickets to Florida. (See #3).

2. Donate appreciated securities in-kind

In-kind donations of publicly-traded shares, mutual funds or segregated funds to a registered charity not only give you a tax receipt equal to the fair market value (FMV) of the securities or funds being donated, but also allows you to avoid paying capital gains tax on any accrued gain.

3. Donate securities obtained through employee stock options

Similarly, if you’re an employee who has received stock options, you can avoid paying tax on the stock option benefit by donating the securities obtained from the option exercise in-kind to a charity within 30 days of exercise.

4. Donate depreciated securities

This has been a difficult year in markets for many investors. If you find that you have some accrued capital losses, consider donating your losing shares to charity. You get a receipt for the fair market value of the shares being donated, but will also realize a capital loss on the donation, which can be used to offset the capital gains triggered in 2023. Any unused net capital loss can be carried back three years or carried forward indefinitely, to be applied against taxable capital gains in those years.

If you plan to repurchase a security you donated at a loss, beware of the “superficial loss” rules that apply when you dispose of property for a loss and buy it back within 30 days before or after the disposition date. The rules apply if property is repurchased within 30 days and is still held on the 30th day by you or an “affiliated

person”, including your spouse or partner, a corporation controlled by you or your spouse or partner, or a trust of which you or your spouse or partner are a majority beneficiary (such as your RRSP or TFSA). Under the rules, your capital loss will be denied and added to the adjusted cost base (tax cost) of the repurchased security. That means any benefit of the capital loss could only be obtained when the repurchased security is ultimately sold.

5. Donate RRSP/RRIF withdrawals

Each dollar withdrawn from an RRSP or RRIF is taxable in the year of withdrawal at your marginal tax rate. Donating your RRSP/RRIF withdrawal to charity can often result in a donation receipt worth more in tax credits than the tax you will face on that RRSP/RRIF withdrawal, which may reduce tax on other income.

For example, let’s say Harvey, a resident of Ontario, is retired, and his income is $50,000 in 2023. He wishes to donate $1,000 from his RRIF to charity. His donation credit on the first $200 would be 15 per cent federally or $30 and 5.05 per cent in Ontario or $10.10. On the next $800, Harvey would get a federal credit at 29 per cent, worth $232, and an Ontario credit at 11.16 per cent, worth $89.28. In total, his donation tax credits equal $361.38. But on Harvey’s $1,000 RRIF withdrawal used to fund his charitable gift, he would only pay 24.15 per cent combined federal/Ontario tax or $241.50. That means he would have an excess tax credit of $119.88 which he could use to offset taxes on his other income.

6. Watch the limit!

While generally not a concern for most donors, the maximum charitable donation tax credit that you can claim cannot exceed 75 per cent of your net income for the tax year in which the gift is made. Any unused donation credits may be carried forward for five years (subject to the 75 per cent maximum in the year they are claimed.) While it may be rare to run up against the limit during your lifetime, it could happen in the year of death, when the donation receipt may be effectively wasted if there’s not enough income in the terminal year or the prior year (where the limits are increased to 100 per cent).

7. Pool your donations

You and your spouse or partner can combine your charitable donations, regardless of whose name appears on the donation receipt, and one of you can claim all the donations up to the allowed personal 75 per cent of income limit. This is also an easy way to avoid doubling up on the lower, $200 donation credit threshold.

8. Corporate donations

If you have a corporation, donations made by the corporation are tax deductible. When your privately-owned corporation makes a charitable gift of appreciated publicly-traded securities in-kind, the corporation receives a tax deduction for the FMV of the shares donated, there’s no tax on the capital gain in the corporation, and the amount of the tax-free capital gain realized is added to the company’s notional capital dividend account, allowing a tax-free capital dividend to be paid out subsequently to the shareholder.

9. Set up a donor-advised fund

Donor Advised Funds are an alternative to setting up your own private foundation. DAFs are useful if you’re not quite sure where to donate this year but still want your tax receipt for 2023. DAFs are offered through some public foundations, such as community foundations or foundations established by some of the major financial institutions or investment management firms. They allow a donor to set up a fund within the larger, public foundation. The donor starts by making a gift of cash or appreciated securities to the DAF and gets an immediate donation receipt. The funds can grow inside the DAF tax-free and each year the donor can recommend distributions (typically a minimum of 3.5 per cent[1] of the opening fair market value of their fund each year) to be made from the DAF to any of the over 86,000 registered charities in Canada.

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[1] The disbursement quota is 5.0 per cent for the portion of certain property that exceeds $1 million.

The biggest advantage of a DAF is that the donor doesn't have to worry about any administrative details or record keeping. The foundation will process all donation requests and transfer the funds to the charities chosen, as well as track the DAF and provide the donor with regular updates on the fund's performance.

A DAF also provides confidentiality, as your individual DAF, and all its financial information, does not appear on the CRA's public listing of charities.

The CIBC Wood Gundy Giving Back DAF program[2] may help you to support the causes that matter to you and achieve your philanthropic goals.

10. Consider making donations in 2023, before AMT changes come into effect

Draft legislation containing proposed changes to the Alternative Minimum Tax (AMT) rules was released on August 4, 2023.

Under the current AMT rules, the donation tax credit can be fully applied against any AMT owing. Starting in 2024, only 50% of the donation tax credit will be allowed when calculating the AMT. This alone should never cause AMT to be generated, even for individuals with high incomes.

In addition, for donations of publicly listed securities, 30% of the gain will be taxable for AMT purposes. As a result, AMT may arise in 2024 where it would not arise if made in similar circumstances in 2023. If the donor is also earning other tax preferred income/gains, then the donation could increase the AMT otherwise arising. For example, if a significant capital gain is coupled with a donation, which could be the case on the sale of a business or the donation of real estate, the amount of AMT payable could increase.

While the new AMT rules that start in 2024 are expected to affect very few taxpayers, there are clearly some situations in which AMT could apply to a donor and may impact significant donations to charities in 2024. This means that planning to reduce exposure to AMT may be available. Be sure to speak with your tax professional to see how AMT could affect your situation in 2024, and, if appropriate, consider triggering a gain, exercising employee stock options or making your charitable gift in 2023, when the AMT impact is zero (or lower).

Finally, as AMT does not apply on death or to a corporate donor, consideration could also be given to making a donation via your will or by your private corporation.

Jamie Golombek, FCPA, FCA, CFP, CLU, TEP is the Managing Director, Tax & Estate Planning with CIBC Private Wealth in Toronto.

jamie.golombek@cibc.com

[2] Additional information about the CIBC Wood Gundy Giving Back program is available online at woodgundy.cibc.com/en/about-us/charitable-giving.html

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