



EP131 - Give More, Keep More:

How to Maximize Your Charitable Impact in Canada

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[00:29] **Lawrence:** Welcome to the Empowered Investor podcast. My name is Lawrence Greenberg, and I'm joined by my co-host, Jackson Matthews. Jackson, how are you?

[00:36] **Jackson:** I'm doing well, Lawrence, thank you. I think we have a great episode today on charitable donations. We're finally getting into the summer — we just finished our tax season — so everything is going well. Life is good.

[00:51] **Lawrence:** All right. This is a really, really good episode. This is actually part one of a three-part series on charitable giving in Canada. This first part is Donations 101. What we cover today is ways to give, how gifting affects your taxes, how to plan around charitable giving, and additional or more specialized strategies for donations. Let's start the show.

[01:13] **Jackson:** Lawrence, there are definitely a couple of different ways that you could be generous and donate. What are those ways?

[01:19] **Lawrence:** First off, the obvious one is giving your time. You could volunteer. You could be boots on the ground with a cause or a charity that you're passionate about. Obviously, the CRA does not compensate you or give you a tax slip for your time, but it's a wonderful way to give back to the community.

[01:37] **Jackson:** For sure.

[01:38] **Lawrence:** Second is gifting personal items — like clothing, furniture, art, or equipment, or something that could be used in the charity. For example, I work with a client who actually gave a grand piano to a church that they attend, and they were actually able to get a slip for the purchase of the piano since it went directly to the charity. It's a really interesting way to give in a way that you're passionate about.

[02:01] **Jackson:** Cool.

[02:03] **Lawrence:** Yeah. There are two other ways to give. First is time, then it's items — then it's cash and security. Cash is quite obvious: you either write a cheque or a wire, or you give your credit card information for a cause or a charity. The last, and really, from our perspective, one of the most



interesting, is to give security. You could actually give stocks, funds, or ETFs to charities. The vast majority of charities in Canada are actually set up to receive these securities, and there are reasons for that. We'll go into that a little bit later. Jackson, how does giving affect your taxes?

[02:35] **Jackson:** When you make a donation, you receive a non-refundable tax credit. There are non-refundable and there are also refundable tax credits. A refundable tax credit can actually bring your tax owing to below zero. A non-refundable credit can only bring your tax balance owing to zero, but not below that.

[02:54] **Lawrence:** Okay.

[02:56] **Jackson:** So when you make a charitable donation, you receive a non-refundable tax credit. If you were to make, let's just say, a \$10,000 donation — I'm going to use a cash donation for this example, and for simplicity's sake I'm also going to use the highest marginal tax bracket of 53%. If you were to make a \$10,000 donation, the first \$200 gets a 35% tax credit, and the remaining \$9,800 gets a 53% tax credit. So your total non-refundable tax credit would be \$5,264. It actually reduces your taxes by \$5,264, making your after-tax cost of giving only \$4,736.

[03:38] **Lawrence:** Oh, that's massive. So it could actually reduce your tax owing by \$5,000 and change, or even give you more of a refund.

[03:46] **Jackson:** Yeah. And the other point is on spousal pooling. You and your spouse can combine all charitable receipts and claim them on one return. Since the higher credit rate kicks in above \$200, pooling on the higher-income spouse's return sometimes could be more advantageous.

[04:03] **Lawrence:** Yeah. Most tax systems will do that automatically — it'll transfer the credits to the higher-income spouse to optimize the impact. And my big takeaway when prepping for this and talking with clients is that basically you're getting 53 cents on the dollar for a donation. That's a really big tax incentive that helps people give. It gives an incentive and it enables charities to hopefully get more as a result. So it's really a win-win.

[04:26] **Jackson:** Yeah, exactly. And one of the comparisons that often gets made with charitable donations is that it's like an RRSP deduction.

[04:33] **Lawrence:** Yeah.

[04:34] **Jackson:** Obviously it's a little bit different, in the sense that with an RRSP you're actually putting money aside for your future self, and at the same time you're getting a tax deduction, which is great. With a charitable donation, you are giving money to a charity, but you are receiving a tax credit that reduces your taxes by approximately the same amount as an RRSP contribution.

[04:53] **Lawrence:** Which is massive.



[04:54] **Jackson:** Yeah. Next up, we're going to compare a cash donation versus an in-kind donation, which has different ways to go about it and different tax implications. So what are those, Lawrence?

[05:03] **Lawrence:** Yeah, that's the biggest one. For most people, this is the biggest contrast here on ways to give. The first is the obvious: you do a cash donation — you want to give \$10,000, you write a cheque for \$10,000. That's it. It goes on your taxes, you get your credits. Giving in-kind means gifting securities — “in-kind” meaning as is. You could give stock shares, mutual funds, ETFs; it could be real estate, art — I've even seen insurance policies. You could give multiple types of assets with gains, and there's a reason why this is actually more powerful: it's the capital gains that you don't pay on that donation. To give a simplified example: you want to give \$50,000, so you have \$50,000 worth of one stock. The adjusted cost — the average cost, the ACB — is \$10,000, so you have an unrealized gain of \$40,000. That means at some point in the future, when you sell, you have a total gain of \$40,000, a taxable gain of \$20,000, which is taxed at your marginal tax rate. So there are taxes to pay. But if you give that \$50,000 in-kind, the charity receives the \$50,000 and they sell it tax-free — because they're a charity — and you do not pay the capital gains. So you could save, in this example, more than \$10,000 of taxes, and that enables you to give more to the charity, which is absolutely massive. So targeting investments, funds, or shares with low cost and a high unrealized gain saves you the most taxes. It's a win for you, and the charity gets those securities as is. They sell it, they're no worse off — they get a dollar for a dollar.

[06:40] **Jackson:** Yeah, exactly. And there are two ways to look at the efficiencies here. If you wanted to donate \$50,000 and, let's say, you don't know about in-kind giving, so you sell your \$50,000 stock, you trigger that gain and you pay the \$10,000 in tax. You can either then give the after-tax proceeds, which is about \$39,500, or you can give the full \$50,000 — but you're still going to owe tax, so it's going to cost you \$60,000.

[07:10] **Lawrence:** Exactly. So you could look at it two ways, both are true, and both exist in the same scenario: you're better off because you're not paying the tax, and the charity's better off because they're getting a larger net-of-tax donation, which is massive. So let's go into two other planning items here. The first is where to give from. So what does that look like?

[07:29] **Jackson:** Yeah, I mean, we just talked about the personal side. This in-kind giving can also be done on the corporate side. So let's say you have a holding company with investments in it, with large unrealized gains. If you were to donate stocks, ETFs, or mutual fund units in-kind, the corporation gets a deduction.

[07:50] **Lawrence:** A deduction — okay. So on the personal side you get a tax credit; on the corporate side you get a deduction. You also dodge the taxes on the capital gains; however, it goes into your CDA account —

[08:02] **Jackson:** Your capital dividend account.



[08:03] **Lawrence:** Capital dividend account. So what that means is that at some point in the future, the shareholder of that holding company will be able to benefit from a tax-free withdrawal, because there's now a balance in the capital dividend account, which you can take out tax-free. So it's massive for those who have a holding company with investments that have gains. Depending on their tax rates and asset composition, it may make sense to do corporate versus personal. That is something you absolutely need to talk to your financial advisor or accountant about, but a really, really creative way to give and to save on taxes — to optimize where you're giving from.

[08:34] **Jackson:** Yeah. So what's another planning item that we should address?

[08:37] **Lawrence:** This is not, I guess, a planning item, but it's definitely something important to note. It's a bit of a roadblock, I guess.

[08:43] **Jackson:** Yeah. It's called the AMT. AMT stands for Alternative Minimum Tax, and it is a parallel tax calculation designed to ensure that high earners pay a minimum level of tax regardless of the amount of deductions and credits they take in a given year. So for donors making very large in-kind gifts — particularly of appreciated securities — the donation tax credit may be limited under AMT calculations. This is most relevant for donors with unusually large gifts relative to their income for that single year. It's definitely worth flagging because, like Lawrence said, it can be a roadblock in certain situations if you wanted to give a large amount of in-kind securities. And what I would also say is that most people won't think about this naturally themselves, because it's a parallel tax calculation that occurs. So it's important to discuss with your advisor and your accountant whether you will be affected by AMT.

[09:37] **Lawrence:** Absolutely. So this is something that is going on behind everyone's tax returns. Not only may AMT kick in if you're giving a very large relative gift, but also if you already benefit from a lot of other credits and deductions, you may already be close to, or in, an AMT zone. So one of those things where, if you plan to give a large amount, or you're looking at gifting in general and you may be in an AMT position, I highly recommend you speak with a financial advisor or accountant. Something to be mindful of, but it often flies under the radar.

[10:06] **Jackson:** Yeah. Now we're moving on to how much you can claim in any given year — and if you can't claim it in this year, what do you do with the remaining donations?

[10:15] **Lawrence:** Yeah. So this is now about planning around giving, right? The first is the limit. For many people they won't crack it, but it's good to know that you could gift up to 75% of your net income in a given tax year. So what that means is, if your net income is \$200,000, you could gift up to \$150,000 worth of donations in that tax year. You also, when you give, have up to five years to claim those credits. So you could actually be systematic about when you apply these credits — you have up to five years to use them up. So when may that come in handy, Jackson?

[10:51] **Jackson:** If you make a donation in a given year and you don't have a high income, it might be beneficial to push out the use of that credit. It's just like an RRSP contribution. Obviously, with RRSPs you can push it out into the future indefinitely — you can defer the deduction for as long as you want. But in this situation, with a donation, you have five years to claim the credit.

[11:12] **Lawrence:** Yeah. So you could be clever about when you're using these credits. If you give a large amount — maybe you're in sales and you're having a down year — since your income is lower, you get less bang for your buck on the credit, so you might say, "I'm going to wait till next year, and hopefully it's a better sales year and my income's higher, and I'll use more of those credits then." So you could plan around it, and again, you want to coordinate with your accountant to make sure it's all optimized.

[11:34] **Jackson:** What's another planning concept — mainly around the estate?

[11:37] **Lawrence:** Yeah, so this is where the annual limit will be changed. In the year-of-death exception, your donation limit increases from 75% of your net income to 100% of your net income for the year of death and the immediately preceding year. So this allows the estate to fully offset the income in both the terminal year and the year prior. This is very useful because now we're implementing another element of planning, which is around estates, wills, and testamentary giving. There's a lot of planning opportunity here if you wanted to make a large donation in the year of your death, because you have a large tax liability in the year of your death. But what's super unique is you can go back a year, where you cannot normally do that. So that gives you some flexibility. And if the person who passed away tended to be a giver and they've expressed their wishes, it's an excellent way to fulfill their wishes and to be tax efficient.

[12:35] **Jackson:** So now we're sort of wrapping up the episode, but there are two more concepts that we want to quickly touch upon. Like we said, this is the first part of a three-part series, but we're going to talk a little bit right now about donor-advised funds. So, Lawrence, can you give us a breakdown at a high level of what this is?

[12:51] **Lawrence:** Yeah, so this will be part two, but the crux of a donor-advised fund — which is a really interesting strategy for a lot of people — is a way to open up your own kind of mini-foundation, for lack of a better term, with a sponsoring institution. It enables you to front-load some of your donation and to have your money grow tax-free for the long term.

[13:12] **Jackson:** Yeah, the super important word you just said was "front-load."

[13:14] **Lawrence:** Yeah, absolutely.

[13:15] **Jackson:** And essentially why that's really important is because the year that you make the donation to your donor-advised fund, you get the full tax credit — in that year.

[13:25] **Lawrence:** In that year.

[13:26] **Jackson:** And like we just mentioned, you have five years to use that tax credit. However, all the money that's in your donor-advised fund can then be dished out to whatever charity you wish to send it to in the many years following.

[13:38] **Lawrence:** Yeah, basically indefinitely. So you can make that big donation if it makes sense given your financial circumstances, or over time — same as any other charity, you get your tax slip when the money goes to the donor-advised fund. While it's in the donor-advised fund, it's invested, and that allows you to give more to the future. It's in a tax-free environment, because at that point it's already in a charity. Then you could express, over the years, how you want to give, and you have complete control. So it's a really nice strategy. It can be used very, very strategically for those who may be candidates. And the last general concept is flow-through shares, which are a really interesting way to save tax but also to give.

[14:11] **Jackson:** Yeah, so these mining flow-through shares are a special type of share issued by a Canadian resource company. When you buy them, the company that is mining for resources is flowing through its exploration tax deductions directly to the investor, and it allows you to deduct those expenses on your own tax return. Now, when you use these flow-through shares and combine them with potentially donations, it can be a very tax-efficient way to donate. We're going to delve deep into that subject with our special guest in a couple of weeks from now, so stay tuned.

[14:46] **Lawrence:** I am very excited to hear more about the donor-advised funds and the flow-through shares, because they're great concepts. Absolutely — not for everyone, but for a lot of people out there, these are really powerful strategies, and they're good things to be aware of. So, Jackson, we're wrapping up. What's a major takeaway you have from this episode?

[15:02] **Jackson:** My major takeaway would be that there are many different ways to donate, and what could make sense in one given year doesn't necessarily make it the most efficient way to give in the next year. So there's a lot of planning that has to go around this, because taxes can be complex. I think it's just important to plan in advance, talk to your financial advisor, loop your accountant into things, and really understand everything there. You have to ask — absolutely.

[15:25] **Lawrence:** And for me, the real low-hanging fruit of this episode is that, for a lot of people — for those who have a non-registered account, so funds outside of an RRSP, TFSA, RESP, FHSA, all the registered accounts; a taxable investment account — it's basically a no-brainer for you to give in-kind to save the capital gains tax and donate that way. So for many people it's a great option. And it may surprise people that the vast majority of charities are set up to receive these securities. So it's a good thing to ask the institutions you usually give to: are you set up for it? And if so, work with your advisor or accountant to make it happen.

[15:59] **Jackson:** Yeah, absolutely.



[16:00] **Lawrence:** So that's a great episode. This is part one of a three-part series. Jackson, thank you so much for coming on the show.

[16:05] **Jackson:** Thank you.

[16:06] **Lawrence:** All right, take care.

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