

Charitable donations: How much tax can you save? It may be less than you think

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In brief

Canada's income tax system encourages gifts by individuals to Canadian charities (and other qualified donees). Depending on your province or territory of residence, you can reduce your tax liability by up to 54% of the total amount you donate to registered charities in a year exceeding \$200 (see the Appendix).

The tax savings arise because the tax system allows you to claim non-refundable tax credits for the donations you make. These credits reduce your tax bill or, viewed in another way, decrease the effective cost of your charitable giving.

However, in some jurisdictions, the charitable donation tax credit has not risen to match provincial and territorial tax increases and therefore is not as high as would be expected.

With appropriate planning, the cost of your charitable giving can be further reduced if you donate certain non-monetary assets.

In detail

Background

The general rule is that you will be granted charitable donation tax credits, for your total annual donations exceeding \$200, at the top marginal income tax rate for:

- federal tax purposes, and
- provincial or territorial tax purposes, based on the province or territory in which you reside

This is the case even if your marginal income tax rate is lower than the top rate.

For example, in British Columbia, where the top provincial income tax rate is 14.7%, annual aggregate donations over \$200 will attract a provincial charitable donation tax credit at a rate of 14.7%.

Therefore, if you are resident in British Columbia and donated \$10,200 in 2015, you are entitled to a provincial charitable donation tax credit of \$1,480.

Your provincial credit is calculated as:

- \$10,000 x 14.7%, plus

- \$200 x 5.06%; in all jurisdictions (except Quebec), the tax credit on the first \$200 of donations is based on the lowest marginal tax rate in the jurisdiction

In addition to the provincial or territorial credit, you will be entitled to a federal charitable donation tax credit that is calculated in a similar manner.

Exceptions

There are several exceptions to this general rule. The exceptions arise:

- federally – due to recent refinements to the rules¹
- Alberta – where the donation tax credit rate exceeds the top marginal personal income tax rate
- New Brunswick, Ontario, Quebec and the Yukon – where donation tax credit rates have not risen to reflect recent increases to top marginal personal income tax rates

Federal

For donations made after 2015, you will qualify for the top federal 33% donation tax credit rate only if you have income that is subject to the top federal 33% personal income tax rate. This will be the case if your taxable income exceeds \$200,000.

Otherwise, your donation tax credit will be calculated at a rate of 29% on annual donations over \$200.

First-time donors

If you are a first-time donor, you can claim the temporary federal First-time Donor's Super Credit (FDSC). The FDSC can be claimed only once and must be claimed after 2012 and before 2018. It is an additional 25% tax credit (on top of the regular charitable donation tax credit, described above) on up to \$1,000 of donations made after March 20, 2013.

Alberta

Alberta's provincial tax credit rate on donations over \$200 is 21%, while its top marginal tax rate is 15%, making Alberta the only jurisdiction in which the credit rate exceeds the top marginal rate.

This creates an incentive to donate because, as shown in Table 1 (see the Appendix), Albertans can reduce their income taxes by up to 54% of their charitable donations, while the top combined marginal tax rate is 48%.

New Brunswick, Ontario, Quebec, the Yukon

If you are a philanthropic-minded individual resident in New Brunswick, Ontario, Quebec or the Yukon who is subject to the top marginal tax rate, your charitable donation tax credit will be calculated at a rate that is below your marginal rate.

This will limit your tax savings and possibly discourage your charitable giving. It diminishes the ability of charities to encourage donors to make more substantial charitable gifts by leveraging an otherwise generous tax system.

Second highest tax bracket: Alberta, Ontario, the Yukon

Top marginal income tax rates apply to taxable income above \$200,000 in all jurisdictions, except Alberta, Ontario and the Yukon. Table 2 (in the Appendix) compares the charitable donation tax credit rate on donations exceeding \$200 to the second highest marginal tax rate in these three jurisdictions.

Table 2 shows that if you are resident in the Yukon and in the second highest marginal rate, the top charitable donation tax credit rate equals your marginal tax rate.

How much can you claim?

Your annual donation limit is generally 75% of your net income

(100% in the year of death and the year immediately preceding death).

Your annual donation limit may be higher than 75% of your net income for certain gifts of capital property. In addition, your annual donation limit will be 100% of your net income for gifts of certified cultural property or ecologically sensitive land.

Gifts made by your spouse or common-law partner can be included in your annual donation limit.

Gifts made by your estate are subject to the newly enacted testamentary donation rules. See our *Tax Insights* "Draft legislative proposals modify tax rules for certain trusts and their beneficiaries" at

www.pwc.com/ca/taxinsights.

Donations not claimed in the year in which they are made can be used in any of the five subsequent taxation years, subject to your annual donation limit for those years.

The takeaway

When developing your charitable giving strategy, the after-tax cost of your donations should be considered.

Canada's tax regime encourages charitable giving. However, charitable donations made by individuals who pay tax at the top marginal rate and live in New Brunswick, Ontario, Quebec or the Yukon do not benefit from as favourable tax treatment as donations made by taxpayers in other provinces and territories.

1. Bill C-2, which received first reading on December 9, 2015, implements a top federal donation tax credit rate of 33% (discussed on this page).

Appendix

Table 1 – 2016 Top charitable donation tax credit rates and top marginal income tax rates

Table 1 applies when taxable income is above \$200,000 (\$300,000 in Alberta, \$220,000 in Ontario, \$500,000 in the Yukon).

	Top combined charitable donation tax credit rate ¹	Top combined marginal tax rate
Federal	33.00%	
Alberta	54.00%	48.00%
British Columbia	47.70%	
Manitoba	50.40%	
New Brunswick	50.95%	53.30%
Newfoundland and Labrador	48.30%	
Northwest Territories	47.05%	
Nova Scotia	54.00%	
Nunavut	44.50%	
Ontario	50.41%	53.53%
Prince Edward Island	51.37%	
Quebec	51.56%	53.31%
Saskatchewan	48.00%	
Yukon	45.80%	48.00%

1. Top charitable donation tax credit rates apply to donations over \$200 made in a year and assuming the federal FDSC does not apply.

Table 2 – 2016 Top charitable donation tax credit rates and second top marginal income tax rates – Alberta, Ontario, Yukon

If taxable income is over \$200,000, but not more than \$300,000 in Alberta, \$220,000 in Ontario, or \$500,000 in the Yukon, top charitable donation tax credit rates and second top rates will be as follows:

	Top combined charitable donation tax credit rate ¹	Second top combined marginal tax rate
Alberta	54.00%	47.00%
Ontario	50.41%	51.97%
Yukon	45.80%	

1. See note 1 to Table 1.

Let's talk

For a deeper discussion of how these issues might affect you, please contact:

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