The Top 7 Mistakes Canadians Make When Donating To Charity - Part VII

Making the wrong gift at the wrong time.

Choosing what and when to donate is an important part of charitable giving

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In previous issues of *Your Guide to Charitable Giving and Estate Planning* I wrote about mistake #1 – not appreciating that your RSP or RIF will be your most highly taxed asset... eventually. I also discussed mistake #2 – not seeking professional help. I then reviewed mistake #3 – not considering your legacy. I followed with a review of mistake #4 – focusing on the wrong metrics. I also discussed mistake #5 – failing to understand how you can make your gift go farther. Finally, I reviewed mistake #6 – not remembering that we are all involuntary philanthropists. In this month's guide I should like to review mistake #7 – making the wrong gift at the wrong time.

> "When I was young I admired clever people. Now that I'm old I admire kind people"
>
> *Abraham Joshua Heschel*

When making a gift to charity, either today or through your estate, consideration should be given to the effectiveness and efficiency of the gift. Assuming the recipient organization is worthy of your generosity, you should then ask yourself: How can I make my donation go further and, at the same time, maximize the tax benefits? The Donation Multiplier™ which I detailed in a previ-

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ous edition of *Your Guide to Charitable Giving and Estate Giving* detailed one strategy that allows you to leverage your gift. I'd now like to focus on how you can also maximize your tax benefits.

When deciding to give, it is important to review all your assets (cash, securities, insurance policies, real estate etc.) to determine which will give you the greatest tax "bang for your buck". As an example, and assuming a marginal tax bracket of 50%, if you have $10,000 of appreciated securities with an adjusted cost base of $4,000, your tax payable on its sale will be approximately $1,500. Fortunately over the last two decades our government has enacted legislation that offers incentives to all of us to give much more. One way it encourages Canadians to do this is through the elimination of tax on appreciated securities if you choose to donate them to a registered charity. In the above example, this would save $1,500 of tax. Unfortunately, in my experience I have found that many Canadians will donate the $10,000 in cash without taking into account the more tax advantageous alternatives open to them. True, they will also receive the same charitable tax credit, but why pay needlessly an extra $1,500 in capital gains tax?

In summary, before you give please carefully review all your assets, or secure the services of a professional advisor with a specialization in philanthropy, to determine which of your assets to use in making a donation.

For details on the remaining six mistakes Canadians make when donating to charity, please feel free to download my **Special Report** at:

www.philanthropymatters.ca

Donation of $10,000

	Sell Securities and Donate Cash	Donate Securities
Fair Market Value	$ 10,000	$ 10,000
Adjusted Cost Base	$ 4,000	$ 4,000
Capital Gain	$ 6,000	$ 6,000
Taxable Capital Gain	$ 3,000	$ -
Tax @ 50%*	$ 1,500	$ -
Less:		
Tax Credit @ 50%	$ 5,000	$ 5,000
Net Tax Saving	$ 3,500	$ 5,000
Net Cost of Donation**	**$ 6,500**	**$ 5,000**

* Assume a marginal tax rate of 50% (for illustration purposes only)

** Cost of donation is $10,000 less the net tax savings

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