



Tax changes make charitable donations more attractive

For many people, donating certain assets directly to charity is part of efficient tax and estate planning. Changes announced in the federal budget this year have made this strategy even more attractive.

The inclusion rate (the taxable portion of capital gains) on gains arising from donations of appreciated eligible property was reduced to 33.33 per cent from 37.5 per cent for dispositions after February 27, 2000. Eligible property includes shares, bonds, mutual fund investments, securities traded on major stock exchanges and real estate.

There were also changes made to the donation tax credit for direct beneficiary designations. You can now claim the charitable donation tax credit for donations of RRSP, RRIF and life insurance proceeds made via direct beneficiary designations in respect of deaths that occurred after 1998. [▲](#)

Consider this before cashing in

Peter invested \$10,000 in mutual funds and wants to donate these funds to his favourite charity. The actual fair market value of the investments is \$100,000. The following calculation (at post-budget rates) illustrates the advantage of donating funds to charity instead of redeeming them, paying the tax and donating the cash proceeds. The calculation assumes Peter pays tax at the top marginal rate of 50 per cent and that he will effectively receive a 50 per cent tax credit for his donation.

	Sell mutual funds and donate cash	Donate mutual funds
Market value	\$ 100,000	\$ 100,000
Adjusted cost base	(10,000)	(10,000)
Capital gain	90,000	90,000
Taxable gain (66.67% vs. 33.33%)	60,000	30,000
Tax on capital gain (@50%)(A)	(30,000)	(15,000)
Tax benefit of gift (@50%)(B)	50,000	50,000
Net tax benefit (A + B)	\$20,000	\$35,000
Net savings to investor from donating funds		\$15,000

Peter would have nearly \$15,000 more simply by choosing to donate the funds instead of cash to charity.