Planning to give

CHARITABLE GIVING should be evaluated as part of a comprehensive review of tax planning and other general estate-planning priorities.

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This year marked a special anniversary as the first of Canada's baby boomers, born in 1947 (as opposed to 1946 in the U.S.), turned 60.

As a group, this massive demographic has generally fared far better than their parent's generation financially. To be sure, some of them will be dependent upon government benefits at retirement, but many are wealthy.

At this time of year, as many Canadians turn their attention to gift giving, a growing number of these leading-edge boomers will consider leaving a legacy with their estate.

If you wish to gift a portion of your wealth now or at your passing, it will behoove you to seek the tax benefits of doing so coupled with careful long-term planning to ensure that your dollars reach their intended destination.

AIM Trimark Funds Management Inc. offers a comprehensive overview of the tax rules involved, and I can recommend their fine analysis of how donations to a registered charity in Canada are eligible for tax credits. The first $200 you donate is eligible for a federal tax credit of 15.25 per cent for 2006 (to be increased to 15.5 per cent for 2007 and subsequent taxation years) of the donation amount. Depending upon where you call home, you can also claim an additional provincial tax credit of 6 per cent to 11 per cent. On average, this adds up to a combined rate of 25 per cent.

If your donations exceed $200 you can claim a federal tax credit of 29 per cent, while the provincial credit ranges from 11 per cent to 18 per cent. On average, you'll receive a refund of 45 per cent of your donation. Note that the donation tax credit reduces the amount of tax you owe, rather than your taxable income

If your annual donations are around $200, consider saving your receipts until you accumulate a larger amount and can take advantage of the higher tax credits. You are also allowed to combine your receipts with your spouse and can carry forward your donations for five years.

As well, during your lifetime you can claim donations up to 75 per cent of your net income annually. In the year of death, and the year prior to, donations can be as much as 100 per cent of net income.

The benefits of gifting during your lifetime are twofold. First, you'll know for certain that your charity of choice has received your donation and the impact it will make. Further, the charity will have your donation in action, serving their needs, now as opposed to years or decades later.

The donor's second benefit is that they will receive the donation tax credit, which could greatly reduce the amount owing in a high-income earning year.

The major downfall of gifting now for the donor is that the tax will likely be due immediately upon declaring one's asset a gift.

Careful planning must follow immediate gifts, ensuring that the donor or dependents can do without this amount of wealth forever more.

If you have wealth holdings that will form part or all of your estate and that are subject to tax due at death, such as RRIFs, RRSPs and investment real estate to name a few, the tax owing at death will likely amount to more than that of any given living year. As such, by deeming your charitable donations after your passing, your estate will very likely be able to use all of the tax credits available. You also benefit from holding and owning your assets during your lifetime.

The world of charitable gifting is quite broad and most assets can be gifted including:

- RRSPs and RRIFs
- _real estate or just the revenue
- securities
- assets in kind (you transfer ownership but still have control over the asset)
- life-insurance proceeds
- charitable-gift annuities
- charitable-remainder trusts.

Gift giving should be evaluated as part of a comprehensive review of your tax planning and other general estate-planning priorities. As every individual's situation is different, please consult your advisor, lawyer or tax advisor to ensure that your wishes are executed to your benefit.

Kelley Keehn is a financial expert, speaker, elder-planning counsellor and author of four books, including The Prosperity Factor for Kids and The Woman's Guide to Money. Visit KelleyKeehn.com. Sources for this article include the AIM Trimark Funds Management Inc. Tax and Estate Bulletin.

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