Outright Gifts

When a donor makes an "outright gift" of cash or property to a local community foundation, every dollar goes to work the moment it is given, providing vital current support to local programs and/or building endowment funds (and generating ongoing endowment income). An outright gift gives a donor the satisfaction of seeing their gift at work and knowing that lives are being touched right now because they cared.

Acceptable Assets:

- Cash
- Cheques or Money Orders
- Payments on Credit Card
- Pre-Authorized Contributions (PAC), usually paid monthly
- Publicly Listed Securities (including segregated and mutual fund units)

NOTE TO READER:

The purpose of this publication is to provide general information, not to render legal advice. In addition any changes in the tax structure may affect the examples listed in this information. Your client should consult their own lawyer or other professional advisor about the applicability of this information to their situation.

Benefits to the Community Foundation:

- Available for immediate use
- Highly liquid
- Easy to administer
- Limited to no risk

Benefits to the Donor:

- Donation receipt for the full amount of gift
- Straightforward, easy-to-understand transactions
- Significant tax benefits depending on assets gifted
- Satisfaction of seeing the gift at work immediately

Most Appropriate For:

- Everyone (any age) who can afford to give up some principal and the interest it would otherwise earn.

Community Foundations of Canada

Fondations communautaires du Canada

Common Questions & Answers:

Q: Is an outright gift always made in cash?

A: Not necessarily, but a cash contribution – paid by cheque, money order or credit card – is the simplest way to give. Remember that a cheque or money order is considered to have been given on the day it was mailed, so a gift mailed late in December and received in January can still qualify for a donation receipt in the preceding tax year.

Q: What is the tax benefit of an outright cash gift?

A: Because a donor receives a donation tax credit for their gift, it is worth more than its actual cost.

The federal tax credit is equal to 16 percent[1] of the first $200 of donation receipts plus 29 percent of receipts in excess of $200. Since a federal tax credit also reduces provincial taxes, a donor's combined tax savings could be nearly half of the contribution made.

Here's an example assuming a combined tax credit of 45 percent. **Shizuko A** writes a cheque for $1000 to the local community foundation, but the net cost of the gift to her is only $550, because her donation receipt for $1000 reduces her income taxes for that year by $450.

A donor may claim up to 75 percent of earned income in charitable donations each year. Donations exceeding the limit can be carried forward and claimed on future tax returns for up to five years.

Q: What other kinds of property can a donor contribute?

A: Non-cash assets such as publicly listed securities, real estate, artworks and other tangibles are also suitable as outright gifts and may be especially suitable if the property's practical worth is less than its market value or it does not fit the donor's investment objectives. In any case, donors are entitled to a donation receipt for the fair market value of the property contributed. Non-cash gifts, other than publicly-traded securities, usually require the prior approval of the Foundation's board.

1. As introduced in the October 2000 Federal "mini-budget" this figure was reduced to 16%, effective January 1, 2001.

Q: If the property has appreciated in value, does a donor have to pay tax on the capital gain when the property is donated?

A: Yes, but for certain types of property, less tax than if the donor sold the property. When listed securities (including mutual funds) are contributed to a public foundation, donors are taxed on only 25 percent[2] of the gain. If those same securities are sold, the owner is taxed on 50 percent of the gain.

In the case of other property, such as real estate and artworks (other than cultural property), a donor is taxed on 50 percent of the gain whether the assets are first contributed or sold. Prior to 2000, a donor would have been taxed on 75 percent of the gain.

Whatever type of appreciated property is contributed, the donor's tax credit will exceed the tax on the gain, so a net tax savings will always be realized.

For example, if a donor contributes listed securities having a current fair market value of $10,000 and a cost base of $2,000, only $2,000 of the gain (25% x $8,000) will be subject to tax. The tax on the gain (assuming a 50-percent combined tax credit) will be $1,000, but the tax credit will be $5,000. Thus, net tax savings of $4,000 will be realized.

If the donor had sold the securities first, $4,000 of the gain would be subject to tax, and the donor would have paid $2,000 in taxes, again assuming a 50-percent combined rate.

Larger Contribution Limit: When appreciated property is donated, the amount claimed for credit is actually larger than 75 percent of a donor's income. In this case, the contribution limit is 75 percent of income from all other sources *plus* 25 percent of the gain arising from the contribution.

Bottom line: No matter how large a contribution or how much the property has appreciated, donors will always be able to use enough of their contribution for a tax credit to exceed the tax on gain that would otherwise be owing.

2. As introduced in the October 2000 Federal "mini-budget".