INDIVIDUAL VERSUS CORPORATE DONATIONS

Individuals who own shares in a private company should consider whether they will realize greater tax benefits by donating to charity personally versus through their corporation. I've assumed that income needn't be flowed out of the corporation as a taxable bonus or dividends to enable the shareholder to make a personal donation. That is, there are sufficient funds on hand both personally and corporately to fund the contribution.

Individuals

Donations made by individuals are eligible for non-refundable tax credits that reduce their year-end tax bill. The federal tax credit is 15% on the first $200 of donations and 29% for donations in excess of $200. The provinces and territories have corresponding tax credits. Donations eligible for the high tax credit essentially generate tax savings equal to the amount of the contribution x the highest marginal tax rate.

Generally speaking, tax credits for donations up to 75% of net income may be claimed in any one year. The limit increases to 100% in the year of death or in the preceding year.

You're not required to claim the credits in the year in which the donations are made – they may be carried forward for up to 5 years. However, keep track of any unclaimed donations because Canada Revenue Agency (CRA) systems aren't programmed to do so.

While tax planning for personal donations will be considered in more detail in future articles, the following is a summary of general recommendations:

1. Claim personal donation tax credits after other non-refundable tax credits and losses carried forward have been fully utilized.

2. Accumulate personal donations until more than $200 can be claimed at a time to qualify for the higher tax credit rate.

3. Claim donations on the tax return of the higher income spouse or common-law partner – that taxpayer will have the higher donation limit (relevant for large donations) and may realize higher tax savings due to reduced provincial/territorial surtaxes.

4. Donate personally rather than corporately unless the corporation is an investment holding company (see below).

Corporations

Corporate gifts to a charity are eligible for a deduction in computing taxable income rather than a tax credit. The annual corporate limit is generally 75% of the company's net income for tax purposes. Undeducted charitable contributions may be carried forward for up to 5 years.

1. Claim corporate donation deductions after expiring losses carried forward have been applied.

2. Donate corporately if the corporation is an investment holding company. The corporate investment tax rate is higher than the personal tax credit rate; therefore, the tax savings will be higher. A $1,000 donation will generate tax savings of $487 if claimed by an investment holding company versus tax savings of $464 if claimed by an individual – a difference of 2.3%.

CORPORATE DONATIONS

Active Business Income 2009 tax rates	**≤ $400,000** Federal & Ontario small business rate	**$400,001 - $500,000** Ontario small business rate only	**≥$1,500,000** General tax rate	**Investment Holding Company** Investment tax rate
Income	$1,000	$ 1,000	$1, 000	$1,000
Donation deduction	(1,000)	(1,000)	-1000	(1,000)
Net income	-	-	-	-
Corporate income tax savings	165	245	330	487
Net cost of donation (income - tax savings): A	**$ 835**	**$ 755**	**$ 670**	**$ 513**

PERSONAL DONATIONS

Income 2009 tax rates	**> $126,264** Top Federal & Ontario tax rate			
Income	$1,000			
Personal tax savings = donation tax credit *	(464)			
Net cost of donation (income- tax savings): B	**$ 536**			
Increased tax benefit of personal donation: A - B	**$ 299**	**$ 219**	**$ 134**	**$ (23)**

Conclusion: Make donation personally for active businesses and corporately for investment holding company

Notes:
* Assumes $200 of other donations

However, the tax savings realized by donating personally rather than through an active business corporation can result in increased tax benefits ranging from a high of $299 to a low of $134 per $1,000 donation (29.9% to 13.4%).

3. Life insurance funded corporate donations can be used to achieve philanthropic objectives while minimizing the double taxation issues that may arise upon the death of a shareholder. Seek professional tax planning advice to implement these types of strategies.

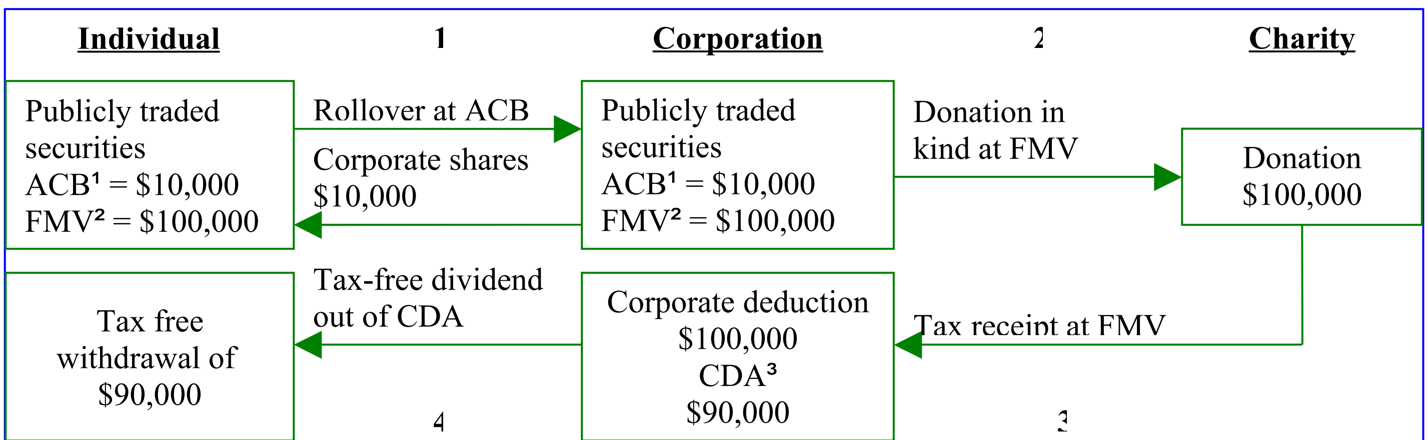
4. Donate securities traded on a prescribed stock exchange with unrealized capital gains corporately rather than personally.

    a. Use a tax-free rollover to transfer the securities into the corporation if they are held personally (consider the administrative costs versus the benefits of doing so).

    b. Avoid triggering taxable capital gains by donating the securities directly to an eligible charity rather than selling the securities and donating the proceeds. (This would apply for personal donations of publicly traded securities as well, if a corporate donation weren't feasible.)

    c. Because 100% of the capital gain would be non-taxable, the full amount of the gain would be added to the corporation's Capital Dividend Account (CDA). **This addition will enable the corporation to pay tax-free capital dividends to shareholders in the future.**

The addition of the capital gain amount to the CDA is an added benefit over and above the donation tax savings because **retained earnings from other income sources, which would normally have to be distributed as taxable dividends, could be paid out tax-free.**



Adjusted Cost Base;
Fair Market Value;
Capital Dividend Account.

Conclusion

In many cases, a personal donation may be preferable to a corporate one; however, there are circumstances, particularly for an investment holding company, where a corporate donation may yield greater benefits. Consult your tax advisor before making any significant charitable donations to ensure that you're maximizing the tax savings available to you and your private corporation.