Charity Giving in Canada (2025)

Working with your Investment Advisor

By Wei Woo

In Canada, charitable donations made to registered charities or qualified données are eligible for tax credits that reduce the donor's income tax payable. Individuals can claim a non-refundable tax credit on their federal and provincial tax returns for donations made during the tax year. The federal tax credit generally provides 15% credit on the first $200 donated and 29% (or 33% for high-income earners) on amounts over $200. Provinces add their own credits, ranging roughly from 4% to 25%, making the combined credit rate potentially around 50% for donations above $200.

Donations can be made in cash or by transferring certain assets such as publicly traded securities, which can also provide capital gains tax advantages by exempting the capital gains on donated securities from taxation.

Carry-Forward Rules

If donors do not claim their donations in the year they are made, they may carry forward unused donation amounts for up to five subsequent years, providing flexibility in tax planning.

Types of Donations and Receipts

Donors receive official donation receipts from charities, which must include the donation date and receipt issuance date. Donations can be made via cash, cheque, credit card, money order, or electronic payment, but payroll deductions or donations through wills after death are treated differently and may not qualify for the same immediate tax credits.

Donor Advised Funds (DAFs) and Their Advantages Over Individual Donations

What is a Donor Advised Fund?

A Donor Advised Fund (DAF) is a charitable giving vehicle where donors contribute assets to a fund managed by a sponsoring organization such as a community foundation or financial institution-affiliated foundation.

Key Advantages of Donor Advised Funds

- **Immediate Tax Benefits**: Donors get an immediate tax receipt for the full donation amount when contributing to the DAF, allowing them to maximize tax benefits in the year of contribution, even if the actual grants to charities happen later.
- **Tax-Efficient Asset Donations**: DAFs accept a variety of assets including cash, stocks, bonds, mutual funds, and sometimes private company shares. Donating appreciated securities through a DAF can avoid capital gains taxes, enhancing the tax efficiency of giving.
- **Tax-Free Growth**: Assets in the DAF grow tax-free, potentially increasing the amount available for charitable grants over time. This allows donors to leverage investment growth for greater philanthropic impact.
- **Flexibility in Timing and Distribution**: Donors can contribute to the fund in a lump sum and then decide how and when to distribute the funds to various charities. This flexibility helps donors plan their giving strategically without the pressure of immediate distribution.
- **Simplified Giving and Administration**: Instead of making multiple donations to different charities and tracking receipts, donors make a single contribution to the DAF and the sponsoring organization handles administration and grant distribution. This reduces paperwork and simplifies record-keeping significantly.
- **Privacy and Anonymity**: DAFs offer donors the option to remain anonymous, which is attractive for individuals or business owners who prefer privacy in their philanthropic activities.
- **Legacy and Family Involvement**: DAFs can be structured to involve family members in philanthropic planning and can serve as a vehicle for multi-generational giving and legacy building.

Comparison with Direct Individual Donations

Feature	Individual Donations	Donor Advised Funds (DAFs)
Tax Receipt Timing	Upon each donation	Immediate upon contribution to DAF
Asset Types Accepted	Cash, some securities	Cash, securities, bonds, mutual funds, private shares
Capital Gains Tax Benefit	Yes, for securities donated directly	Yes, plus tax-free growth within the fund
Timing of Grants to Charities	Immediate or as donated	Flexible; grants can be made over years
Administrative Burden	Higher (multiple receipts, tracking)	Lower; managed by sponsoring organization
Privacy	Limited	Greater anonymity possible
Philanthropic Planning	Limited	Supports long-term family planning

Donor Advised Funds provide a more flexible, tax-efficient, and administratively simpler way for Canadians to manage their charitable giving compared to making individual donations directly to charities. They allow donors to maximize immediate tax benefits while planning their philanthropy over time, invest donated assets for growth, and simplify the donation process, making them an increasingly popular tool for strategic charitable giving in Canada.

How Donating RRIF Payments or the RRIF Itself Works to Offset Taxes

1. **Taxation of RRIF Withdrawals**
   When you withdraw money from your RRIF, the amount withdrawn is fully taxable as income in that year. This can significantly increase your tax payable, especially if the withdrawal is large.

2. **Donating RRIF Payments or RRIF Assets**
   You can donate the cash proceeds from RRIF withdrawals to charity to reduce withdrawal taxes, or you can name a charity as a beneficiary of your RRIF so that the RRIF passes directly to the charity on your death. In the latter case, the charity issues a tax receipt for the full value of the RRIF at death, which can offset the taxes triggered by the RRIF inclusion in your final income.

3. **Withholding Tax Considerations**
   Further to # 2, withdrawals from RRIFs are subject to withholding tax over and above your RRIF minimums (10% for amounts under $5,000; 20% for $5,000–$15,000; 30% over $15,000). This continues while you are alive, and you will be able to offset the taxes with RRIF payment donations to the charity upon tax filing time. However, if you name a charity as the beneficiary upon death, the RRIF can pass directly without withholding tax, and the charity issues a receipt for the full amount.

Basic Example

- Imagine you withdraw $20,000 from your RRIF in 2025. This $20,000 is added to your taxable income and taxed at your federal marginal rate (say 30%), which in this example results in $6,000 tax payable.
- If you donate the $20,000 to a registered charity in the same year, you receive a charitable donation tax credit. Assuming a combined federal and provincial credit rate of about 45%, your tax credit would be approximately $9,000 (45% X $20,000 donation).
- The $9,000 tax credit offsets the $6,000 tax payable on the RRIF withdrawal, effectively eliminating the tax on the withdrawal and leaving you with a net tax benefit.
- If you name the charity as the beneficiary of your RRIF upon death, the RRIF's full value is considered a charitable donation, generating a tax receipt that offsets the tax triggered by including the RRIF value in your final tax return, reducing or eliminating taxes owed by your estate.

Summary

Donating RRIF payments or the RRIF itself to charity is a tax-efficient strategy to reduce or eliminate the income tax payable on RRIF withdrawals. By either donating withdrawal proceeds or naming a charity as beneficiary, you receive charitable tax credits that can offset the tax triggered by RRIF income inclusion. This approach preserves more of your assets for charitable purposes while reducing your tax burden.

If you want to explore post-retirement goals aimed at creating healthy and balanced financial strategies, please contact me at wwoo@researchcapital.com.

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