



Charitable Gifts and the Sixty-Cent Dollar

At some point before April 30th each year, most of us will have to complete an income tax return. It seems like a good time to examine how gifts to the church are treated by the Income Tax Act. I like to think of paying income tax as accumulating money in an account with my name on it, somewhere in Ottawa. When I pay tax, I put money into the account. When I get a refund, I withdraw money from that account and put it back into my pocket.

The rate at which we pay into the account depends on our income and our place of residence. In Canada income tax is a “progressive” system, which means that the rate of tax rises as income levels go up. In addition to federal tax we also pay provincial income taxes. Each province's rates are somewhat different, so I'll use Ontario figures in the examples that follow.

For 2015, an Ontario resident whose taxable income is over \$150,000 will pay about 46% of each additional dollar earned in income tax. This is called the “marginal tax rate”. At lower income levels the marginal rate is less. This is the “pay-in” rate on the tax account.

When we make charitable donations, we are allowed to claim credits against tax owing. These credits are subtracted from the amount of tax due, in one of the final calculations on the tax return. This creates a transfer of money back into our pocket. For each individual, the first \$200 of charitable donations creates a credit of 16% of basic federal tax due. Each dollar above \$200 creates a 29% basic federal credit. But the real value of these credits is much higher, once we take into account provincial taxes and surtaxes.

Each dollar (beyond the first \$200) claimed in charitable gifts by an Ontario resident on the 2015 return reduces income tax owing by at least 40 cents. This means that gifts we make to the church have a net cost to us of only 60 cents on the dollar, since we get the rest back in reduced income taxes. Because of surtaxes that apply to higher levels of income, the value of the credit can rise to as much as 46% for people with taxable incomes over approximately \$135,000. This is the “pay-out” rate on our tax account.

At taxable incomes that put people in the highest tax bracket, the pay-in and pay-out levels are the same. Each additional dollar earned is reduced by approximately 46 cents in income tax. Each dollar donated to the church reduces income tax owing by that same 46 cents.

But at lower income levels, charitable giving becomes a real bargain. Charitable donation credits reduce tax at a faster rate than the person paid on income earned. Giving your money away is one of the few ways to beat the tax man.

If we overlook the differences between income levels and provinces and average the numbers, we can truly talk about charitable gifts being made with sixty-cent dollars! A dollar of value is delivered by the church at a cost to us of only sixty cents.

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