



Gifts by Canadians to Mayo Clinic

Canadians who would like to support Mayo Clinic may wonder if a gift to it qualifies for a tax credit. The answer, we are pleased to say, is yes.

Section 3503 of the Canadian Income Tax Regulations allows a tax credit for a contribution to an American university, “the student body of which ordinarily includes students from Canada.” These institutions are listed in Schedule VIII of the Canadian Regulations and are known as “prescribed universities.” Mayo Clinic appears on the list. (Although Schedule VIII refers to the listed organizations as “universities,” many of them are known within the United States as “colleges” or “schools.” In all cases, they are organizations that grant undergraduate, graduate and/or professional degrees. Mayo Clinic includes a School of Medicine that grants professional degrees.)

Because Mayo Clinic is listed on Schedule VIII, you receive essentially the same tax benefits from a gift to it as from a gift to a Canadian charity. In other words, we are treated as though we are a Canadian charity and thus

Canadian laws apply. When you make a gift to Mayo, we will send you a donation receipt—such as you would receive from a Canadian charity—to use in claiming your tax credit.

The governments of our respective countries encourage individuals to support the colleges and universities with which they are affiliated, and alumni from both sides of the border have provided valuable support through the years.

The following pages describe various types of charitable gifts, both outright and deferred. Of course, every person’s financial situation is different. Thus, we urge you to consult your tax and legal advisors about the applicability of any of these plans to your own situation.

If you have ever considered a gift to Mayo Clinic, we invite you to call or write our office. We would be pleased to discuss with you and your advisors ways to design and direct your gift.

Department of Development
855-852-8129 (toll-free)

Mayo Clinic
200 First Street SW | Rochester, Minnesota 55905

Outright Gifts

Outright gifts go to work for Mayo Clinic immediately. They may be designated for a particular program or specialty, for an endowed fund or for our general use.

Cash Contributions

A gift of cash, made online or by cheque, is by far the most common kind of contribution. If the gift is by cheque, it is considered to have been made on the later of the dates the cheque was signed and mailed; so a cheque dated and mailed in late December and received in January can still qualify for a charitable donation receipt in the preceding tax year.

As a result of the federal and provincial tax credits in Canada, the net cost of the gift will be less than the amount you pay to Mayo Clinic. In any given year you may claim a federal tax credit of 15% of the first \$200 you donate and 29% of your donations in excess of \$200. However, if some of your income is subject to a 33% federal income-tax rate, your charitable tax credit will be 33%, rather than 29%, of gifts to the extent of your income that would be subject to the 33% rate.

Your donation also results in a credit against your provincial tax. Your combined federal/provincial tax savings are often in the range of 40% to 50% of contributions in excess of \$200, depending on your income and the province where you reside.

Either spouse can claim the donation on his or her tax return, no matter whose name is on the receipt, or they can split the donation on their respective returns. Because of the \$200 threshold, it is usually better for one spouse to claim all of the donations—assuming that person's annual income is large enough for the donations to be used.

When you make a gift to a registered charity in Canada, or to an organization such as Mayo Clinic that is listed on Schedule VIII, the maximum contribution that can be claimed for credit in any one year is 75% of net income. For example, a person with a net income of \$100,000 could claim up to \$75,000 for credit. Any unused contribution can be carried forward for up to five years. These limits now apply in all Canadian provinces and territories.

Gifts-in-Kind

A gift-in-kind is a noncash gift and includes securities, real estate, shares in a privately owned business and tangible property such as art works, books and the like. Mayo Clinic does accept gifts of marketable securities and may accept gifts of real estate, business interests and tangibles as well. If you own real estate situated either in Canada or the United States and you would consider contributing it, please contact our office. We will review the property and determine if we are able to accept it. Please follow the same procedure for proposed gifts of business interests and tangibles.

When you make a gift-in-kind, the amount of the charitable donation receipt is based on the fair-market value of the property on the date of the gift. This value is easily determined for publicly traded stocks and bonds (also known as "listed securities"), but the value of real estate and tangible property must be determined by an appraisal. Such property estimated to be worth less than \$1,000 may be valued by an individual working for Mayo who is knowledgeable about that type of property. If it is worth more than \$1,000, it must be valued by a qualified independent appraiser not associated with either the donor or Mayo.

Appreciated Property

It is likely that your securities and real estate—and perhaps other property as well—have appreciated in value since you acquired them. Gifts of listed securities are especially advantageous. When you contribute stocks, bonds, mutual funds and certain other securities that are publicly traded, none of the gain is taxable but your donation receipt will be for the full fair-market value. If you were to sell these securities, 50% of the gain would be taxable.

Example: *Mr. C, whose net income from various sources is \$150,000, contributes to Mayo publicly traded stock valued at \$20,000 that he purchased for \$4,000. The gain in the stock is \$16,000. If he sold the stock, 50% of the gain, or \$8,000, would be taxable. Assuming a 46.4% combined federal and provincial tax rate, the tax would be \$3,712—leaving \$16,288 of after-tax proceeds. If he contributed the stock, none of the gain would be taxable and his tax credit would be \$9,280. The net cost of giving the stock, compared with selling it, is only \$7,008 (\$16,288 – \$9,280).*

If you contribute property other than listed securities, you will have to add 50% of the capital gain to your taxable income, the same as if you sold the property. However, the tax credit will generally exceed the tax on the gain, resulting in tax savings.

Example: *Ms. M, whose annual income from various other sources is also \$150,000, owns a small condominium in Florida that she no longer uses but rents part of the year. She paid \$140,000 for it and it is now worth \$240,000. If she contributes the property to Mayo, she will realize \$100,000 of capital gain of which \$50,000 is taxable. If her combined federal and provincial tax rate is also 46.4%, the tax on the gain would be \$23,200. However, she would receive a donation receipt for \$240,000, resulting in a tax credit of \$111,360 over the years that she claims the credit. As noted above, a donor has up to six years to claim the credit—the year of the gift plus up to five carryover years.*

Real estate situated in the United States—When you donate real estate situated in the United States, any taxable gain is reported on your Canadian return the same as if you contributed the property to a Canadian charity. The capital gain will not be subject to tax in the United States when the property is contributed to Mayo.

Deferred Gifts

Deferred gifts are arranged now but are not available for use by Mayo Clinic until some future time. They help sustain the quality of the organization and, like outright gifts, can be designated for a variety of purposes. Often, they are committed for a named endowment, which is established when the money becomes available.

Bequests

The Most Common Type of Deferred Gift—Each year many individuals designate a portion of their assets by bequest to benefit Mayo. These bequests can take various forms:

A **specific bequest** directs that the charity is to receive a specific piece of property. Example: “I give to Mayo Clinic, 200 First Street SW, Rochester, Minnesota 55905 all of my shares in XYZ Mutual Fund to be used for the general purposes of Mayo Clinic.”

A **general bequest** directs that the charity receive a specific amount of a certain kind of property, usually a sum of cash. Example: “I give to Mayo Clinic, 200 First Street SW, Rochester, Minnesota 55905 the sum of \$100,000 to be used for the general purposes of Mayo Clinic.”

A **residual bequest** designates all or a portion of whatever remains after all debts, taxes, expenses and all other bequests have been paid. Example: “I give to Mayo Clinic, 200 First Street SW, Rochester, Minnesota 55905 fifty percent (50%) of the rest, residue and remainder of my estate to be used for the general purposes of said organization.”

A **contingent bequest** takes effect only if the primary intention cannot be met (e.g., if the primary beneficiary does not survive the donor). This ensures that property will pass to Mayo rather than unintended beneficiaries (including the government).

While all of these examples provide unrestricted support for Mayo, any of them could be designated a restricted bequest for a specific purpose. For example, if you wish to memorialize a family member or an honoured colleague, mentor or physician, you can establish a named fund that will provide support for a programme of particular interest to you or the honoured person.

If you are planning a bequest to our organization, we recommend that you discuss the terms with us before the will is drawn up to ensure that your wishes can be met. Once the will is executed, we also encourage you to provide us with a copy of the section pertaining to the bequest for our files and future reference.

A bequest is a revocable gift and can be changed at any time should your circumstances change.

Tax Benefits of a Charitable Bequest—If you leave a charitable bequest to Mayo Clinic, we will provide to your executor a donation receipt for the value of the bequest—and this will result in a tax credit. For a death occurring in 2016 and later years, an executor can claim the credit either on the donor’s final two

income-tax returns or on the estate’s income-tax returns, depending on which is more advantageous. In either case, a charitable bequest will reduce the taxes that would otherwise be payable.

Example: *In her will Ms. H, a widow, leaves \$50,000 to Mayo Clinic, and the remainder of her estate is divided among her children and various Canadian charities. Her executor claims the credit for this bequest on her final two income-tax returns, and this results in combined federal and provincial tax savings of approximately \$23,000. Many individuals, like Ms. H, choose to remember not only their families but also the organizations that have nurtured them and enriched their lives.*

Gift Annuities: Payments to You for Life

You may transfer money to a prescribed American institution, such as Mayo Clinic, in exchange for an annuity that makes guaranteed payments to you or to you and your spouse for life. After the death of the beneficiaries, the remaining assets from your contributions will be used by the institution for the purposes set out in the annuity agreement.

You will receive a charitable donation receipt for a portion of the amount transferred. In addition, a significant portion of the annuity payments will be tax-free on your Canadian return, depending on your life expectancy. Some withholding will be required for U.S. tax purposes, but a foreign tax credit may be allowed for it when you file your Canadian return. Because a substantial portion of your payments is tax-free, you are likely to have more cash flow than from a fully taxable investment such as a GIC. At the same time, you assist Mayo in our work.

Following are sample gift annuity rates currently offered by Mayo Clinic to a single annuitant (the person who receives the payments, which could be the donor or another person). Our office can provide you with a financial illustration showing the amount of your payments, how much of them would be tax-free and the amount of your tax credit.

Aged 65: 4.2%	Aged 80: 6.5%
Aged 70: 4.7%	Aged 85: 7.6%
Aged 75: 5.4%	Aged 90: 8.6%

In most cases, all or a substantial portion of your payments from a gift annuity will be tax-free on your Canadian return, and you will receive a donation receipt for part of your contribution. A gift annuity is an attractive way to contribute to our organization while increasing your cash flow. We would be pleased to provide an illustration based on your particular age showing the amount of your payments, how they would be taxed and the size of the donation receipt.

It is possible to establish a gift annuity with payments to two persons and then to the survivor.

Residual Interest: Gift Receipt for Property You Continue to Use

A residual interest arrangement allows you to get a charitable donation receipt now for a gift of real estate and retain the right to reside in it during your lifetime.

Such a gift requires that the property be irrevocably transferred to Mayo Clinic. You are then entitled to a charitable donation receipt for the actuarially determined value of the residual interest owned by Mayo (the value in today's dollars of what our Mayo is expected to receive from your gift at your death). This will not be as large as the receipt for an outright gift of property for use by Mayo today, but it will be quite substantial.

In residual interest arrangements, the donor remains responsible for maintaining the property. If, because of health or other reasons, you move from the property, there are various arrangements that would provide a financial benefit to you.

When you give a residual interest in a principal residence, you are not taxed on the gain. Should you give a residual interest in other real property, such as a vacation cottage, you would recognize a portion of the capital gain if the property has appreciated. However, your tax credit would exceed the tax on the gain, resulting in net tax savings.

In summary, a gift of a residual interest enables you to save income tax now without altering your lifestyle.

Charitable Remainder Trusts: Gifts That Give Back

This is another form of residual interest arrangement, funded with cash, securities or real estate, that is transferred irrevocably to a trustee. You retain the right to the net income from the trust according to the terms set out at the time the trust is established. Mayo Clinic receives whatever remains in the trust after your death or after a specified period of years, whichever you have stipulated.

You receive a charitable donation receipt for the value of the residual interest that belongs to Mayo. Again, this is actuarially calculated, taking into account the value of the property transferred to the trust, current interest rates and your age or the duration of the trust (if for a term of years). When you fund a trust with appreciated property, such as securities, you will be taxed on a portion of the capital gain; but the tax credit will often exceed the tax on the gain, resulting in net tax savings.

When interest rates are low, the tax credit from establishing a charitable remainder trust will be larger. Thus, such a trust is an excellent way to maintain or increase your income while saving a significant amount of income tax.

As with a gift annuity, you can have the payments made to yourself and then to another person—a spouse, for instance. You can establish the trust during your lifetime, or you can establish it under your will to provide for a survivor. One reason people create the trust during life is to provide for expert management of assets.

Charitable remainder trusts are not as common in Canada as in the United States, but it is possible to establish one naming Mayo Clinic or Mayo along with a Canadian charity—to receive the remainder after the trust terminates. The trustee would normally be a Canadian trust company, but Mayo Clinic may be able to serve as trustee if it is the sole charitable beneficiary.

Gifts of Life Insurance

Transfer of Ownership—As your circumstances change—children grow up, leave home and marry—life insurance policies that were once important safety nets may no longer be needed.

If you make Mayo Clinic the owner and beneficiary of such a policy, you are entitled to a charitable donation receipt for the value of the policy.

This type of gift can be quite advantageous. First, it is not out of your current income and therefore will not be “missed.” Second, the ultimate value of the gift—the death benefit to Mayo—may be several times your investment in the policy, giving you a more significant impact on the work of Mayo. Third, the gift is not subject to probate as a bequest would be.

If you continue to pay premiums on the policy, you also receive donation receipts for payments—whether you make them directly to the insurance company or to Mayo, which in turn uses them for the premiums.

Charity as Beneficiary—You can name Mayo Clinic as beneficiary of a policy but retain ownership. This is advisable if you wish to have access to the cash value and be able to substitute a beneficiary should your circumstances change. Of course, when you retain ownership, you are not entitled to a donation receipt for the current value of the policy, nor for future premiums paid. Mayo will issue a donation receipt for proceeds it receives at your death. This will result in a tax credit that can significantly reduce taxes payable with your final tax return.

RRSP and RRIF Gifts

Just as you can name Mayo Clinic as beneficiary of a life insurance policy, you can also name it as beneficiary of all or a portion of your RRSP or RRIF (unless you live in the province of Quebec). All distributions from these retirement vehicles are fully taxable. However, a donation receipt is issued for any distribution to a charity via a beneficiary designation. The resulting tax credit will offset the tax on the distribution, which means that you can leave these funds to Mayo without tax cost.

Note: If you live in Quebec, two steps are necessary to make a gift from an RRSP or RRIF: Name your estate as beneficiary of the percentage of remaining retirement funds you wish to donate, and then in your will provide a bequest to Mayo Clinic for an equivalent amount.

Example: Ms. W names Mayo Clinic as beneficiary of her RRIF. At her death the \$50,000 remaining in her RRIF is paid to us, and we issue a donation receipt for \$50,000.

Taxable distribution	\$50,000
Tax on distribution (assuming a tax rate of 46.4%)	\$23,200
Donation receipt	\$50,000
Tax credit (assuming a 46.4% combined federal/provincial tax credit)	\$23,200
Net tax payable	\$0

While this is a very simple way to make an estate gift, Ms. W's tax benefits would have been greater had she empowered her executor to select appreciated stocks to make the \$50,000 gift.

A Final Word

This publication has provided an overview of the various kinds of planned gifts that you can make to Mayo Clinic under Canadian law. We will be delighted to work with you and your advisors in arranging a gift to our organization that best suits your objectives. Please call or write our office if you would like to discuss any of these giving plans or receive more information.

Mayo Clinic

200 First St. SW
Rochester, MN 55905

13400 E. Shea Blvd.
Scottsdale, AZ 85259

4500 San Pablo Road
Jacksonville, FL 32224

15 Portland Place
London W1B 1PT, UK

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Department of Development
Mayo Clinic
200 First Street SW
Rochester, Minnesota 55905
855-852-8129 (toll-free)