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Charitable giving: Donating public company shares

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Did you know that you may save taxes if you donate publicly traded securities directly to a registered charity? This is a smart and tax-effective alternative to donating cash—but how you structure the charitable donations can be as important as the amount given.

The rules

The disposition of a share results in a capital gain to the extent of the fair market value of the share at the time of disposition exceeds its original purchase price. A donation of capital property is considered a disposition for tax purposes, which may result in a capital gain.

However, there is an exception to this rule where eligible property is donated to a qualified donee such as a registered charity. Eligible property generally includes securities, such as shares and bonds, that are listed on a designated stock exchange as well as mutual fund units. For such donations, the taxable portion of the gain is reduced from 50 per cent to nil so that the disposition of the security to the charity is fully exempt from capital gains tax.

You must donate the security directly to the charitable organization to receive this favorable tax treatment. You can't sell the security in the open market and donate the cash. If you do, you will be subject to tax on any resulting capital gain. By donating the shares directly, the charity benefits by receiving the full value of the shares. At the same time, you benefit by paying no tax on the disposition and receiving a charitable donation receipt for the fair market value of the shares at the time of the donation. This can result in a significant tax benefit for anyone with charitable intent.

For 2022, the federal donation tax credit is 15 per cent on the first $200 of donations claimed in the year, and 29 per cent on donations above $200. If your taxable income exceeds the top personal tax bracket ($221,708 in 2022), the federal donation tax credit rate can reach 33 per cent for donations over $200. After factoring in provincial tax savings (except for Québec), donations in excess of $200 will save you anywhere from 44.2 to 54 per cent, depending on your resident province.

The donation tax credit is non-refundable and the amount of eligible donations that can be claimed is limited to 75 per cent of net income (increased to 100 per cent of net income in the year of death or the year preceding death). However, unused donations can be carried forward 5 years. Also, a spouse or common-law partner may be able to claim the donation instead of the individual making the donation, which, depending on the situation, could result in a higher benefit.

An example of the potential tax benefit is illustrated in the table below (assuming the donor is taxed at a top marginal rate of 50 per cent and a donation receives a combined federal and provincial tax credit of 50 per cent):

DESCRIPTION	SALE OF SECURITIES AND CASH DONATION	DONATION OF SECURITIES
VALUE OF SHARES / DONATION (A)	$5,000	$5,000
COST BASE OF SHARES (B)	$1,000	$1,000
CAPITAL GAIN ((A - B) = C)	$4,000	$4,000
CAPITAL GAIN INCLUSION RATE (D)	50%	0%
TAXABLE CAPITAL GAIN ((C X D) = E)	$2000	$ NIL
TAX ON TAXABLE CAPITAL GAIN (E X 50%)	$1,000	$ NIL
DONATION TAX CREDIT (A X 50%)	$2,500	$2,500
NET TAX SAVINGS (TAX LESS DONATION CREDIT (F))	**$1,500**	**$2,500**
NET AFTER-TAX COST OF DONATION (A - F)	**$3,500**	**$2,500**

In this example, the individual saves $1,000 in tax if the securities are donated directly to a registered charity as opposed to making a cash donation of the same value as the shares.

Donating through a corporation

You may receive more benefit if you donate publicly traded securities or mutual fund units held by your corporation rather than cash where there is an accrued gain. If your corporation donates eligible property, it would generally be entitled to a deduction equal to the fair market value of the securities donated, with the taxable portion of the resulting capital gain being reduced to nil. In addition, the tax-free portion of the capital gain on such donations, which is 100 per cent as opposed to 50 per cent, is added to a private corporation's capital dividend account (CDA). A larger CDA balance generally allows you to withdraw more funds on a tax-free basis from your corporation, assuming the tax-free portion of the company's cumulative capital gains exceed the tax-free portion of the company's cumulative capital losses, and you are a Canadian resident.

The deductible amount of charitable donations is limited to 75 per cent of a corporation's net income for tax purposes (excluding the donations). For example, if your corporation incurred a loss for tax purposes, any charitable donations would be non-deductible that year, however, any unused donations can be carried forward for up to 5 taxation years.

Additional information

There are many factors to consider when making a charitable donation, whether as an individual or through your corporation, and the potential tax benefits will vary based on your situation. Before making a sizeable donation—whether in cash or in kind—please contact your local Grant Thornton LLP advisor or contact us here.

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