Tax Benefits of Charitable Giving

Did you know that you can save tax AND donate to charity?

If you have public securities (stocks or mutual funds or bonds) that have a capital gain, they can make a BIG difference to a charity, and save you the tax in two ways; a regular tax credit (usually equal to your tax rate) and zero capital gains inclusion.

You have probably seen the term “Gift of Securities – in kind” on various websites. What does this really mean for you?

Let’s use an example that I have made up for illustration purposes:

Joe owns $100,000 (current value) of ABC Corp. He paid $50,000 for his shares several years ago. If he sells them outright, he is looking at a capital gain of $50,000, of which will pay tax on 50% of this gain. Assuming the highest tax bracket is 46%, Joe will owe $11,500.

Now say that Joe decides to donate $20,000 in ABC shares to a charity ‘in kind’ and sell the rest of his shares to receive $80,000. The cost base is $50,000, and the capital gain would be $50,000. The donation tax credit would be $9200 on the shares he donated (assuming 46% on $20,000). This would offset the taxes owed on the sale of the shares that Joe sold and he could keep the cash proceeds to reinvest (Tax = 50% on gain of $40,000 x 46% tax rate). Essentially this will take Joe’s tax burden to zero. Talk about a great win/win!

The Cardiac Health Foundation of Canada would benefit greatly from these types of donations as they provide additional longevity to an organization’s legacy, injects holdings with larger donations, and provides funding for future programs.

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