Consider a donation of securities for your tax planning

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Give back while receiving tax incentives

Planning on donating to your favourite charity but don't want to use up your liquid cash? You have other options that could still help you make an impactful contribution to your community but also help you improve your personal tax situation. Consider donating marketable securities. To incentivize charitable donations, the government gives Canadians tax credits for donations and perhaps the most advantageous strategy for savvy investors is the donation of appreciated marketable securities. Capital gains on the donation of marketable securities (such as publicly traded stocks, government bonds, mutual funds or trust units) are tax-exempt and the donation is valued at the securities' fair market value at the donation date.

This can be extremely powerful if:

- You have investment positions that have appreciated in value but no longer fit your investment objectives or you are in a position to take market gains, or
- You have investments in return of capital ("ROC") products, such as T-series mutual funds or flow-through shares, have an adjusted cost basis that is near zero, and
- You are in a high marginal tax bracket and are interested in making a charitable donation.

How does this work?

Donations of marketable securities must be transferred "in-kind" to the registered charity. Typically, the security is transferred electronically to the charity's brokerage account and the donation value is normally based on the closing price of the security on the day of receipt. Most charities sell the security immediately to ensure the value of the gift is realized.

Tax advantages

An individual can claim a tax credit on the qualified donation up to 75% of their net income and 100% of their net income in the year of death and the year prior. Unused claims may be carried forward for up to five years and donations made in the year of death may be carried back one year.

Let's take a closer look by using an example: a BC taxpayer earning taxable income of $285,000 decides to donate 500 shares of publicly traded ABC stocks with a last traded price of $50 per share and a cost base of $20 per share.

Sell security and donate cash	
Fair market value of ABC stocks	$25,000
Adjusted cost base	$10,000
Potential taxable capital gain	$15,000
Potential tax liability (assuming marginal rate of 53.5%) (A)	$4,013
Tax receipt issued	$25,000
Federal and BC charitable donation tax credit (see below) (B)	$13,308
Total taxes saved (A+B)	**$17,321**

	Federal credit	Provincial credit (BC example)
First $200	$200 x 15% = $30	$200 x 5.06% = $10
Amounts over $200 and relating to taxable income over $222,420	$24,800 x 33%* = $8,184	$24,800 x 20.50% = $5,084
Total		**$13,308**

* The 33% credit applies only to donations made after 2015 and the taxpayer has taxable income the highest tax bracket (2020 - $220,000). Otherwise, donations will still receive the 29% credit. The federal top rate for donation credits provides an additional tax credit of $992 for the taxpayer with taxable income in the highest tax bracket.

The after-tax cost of this $25,000 donation to your favourite charity will be $7,679 compared to $11,692 if you donated cash – a 34% reduction.

Key considerations

- Must be a registered charity; ask for the CRA charity registration number
- Biggest benefit occurs when you give away positions with the highest embedded gains
- Beware of giving securities in a year with capital losses that can offset your gains
- Strategy is most impactful in your high-income years

Action points

- Call your accountant … what is your estimated tax bill?
- Call your advisor … look for gains to harvest
- Consider this during your regular year-end tax planning routine

Speak with your own tax advisors about your own tax situation when evaluating and before implementing any tax planning strategies.