

Investor Insight

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Innovative Ways to Give

Here are some innovative donation strategies that may help to reduce your tax liabilities and enhance your capacity to give. We recommend seeking advice from a tax professional prior to implementing any strategy.

Gifts of Securities

If you have marketable securities with accrued gains in your portfolio, you may consider donating the securities to a charity, especially if you had intended on selling these securities on the open market in order to fund your donation.

Ordinarily, when you sell marketable securities that have appreciated in value you are subject to tax on one-half of the capital gain realized. However, if these securities are disposed by way of a donation to a public charity or a private foundation, you will generally not be subject to income tax on the resulting capital gains.

In addition to avoiding any capital gains tax, you will also receive a donation receipt from the charity for the fair market value of the marketable securities.

Gifts of Employee Stock Options

When exercising an employee stock option in a publicly-traded company, you are deemed to have received a taxable benefit in employment income in an amount equal to the difference between the fair market value of the shares on the date of exercise and the option's exercise price. If these options were out-of-the-money at the time of grant (i.e., the exercise price was greater than, or equal to, the fair market value of the shares at the time of grant), you should receive a deduction equal to 50 percent of the resulting employment income.

Karcz Wealth Management

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“Charitable donations can also benefit you by reducing your tax liabilities”

If you decide to donate all, or a portion, of these share options to a charity in the year they are acquired and within 30 days of acquisition, provided certain conditions are met, you could receive an additional deduction equal to 50 percent of the resulting employment income. As a result, you may not be subject to tax on the stock option benefit and you would also receive a donation receipt from the charity for the fair market value of the share options.

These tax benefits may also apply when you exercise your options and direct your broker to immediately sell the shares and donate all, or a portion, of the proceeds to a charity.

Corporate Gifts of Securities

Generally, Canadian corporations that gift appreciated marketable securities will also avoid capital gains tax and obtain a donation receipt equal to the fair market value of the securities donated.

For private corporations in Canada, a corporate donation of marketable securities can also provide a significant benefit by way of the capital dividend account. This notional account tracks surpluses accumulated by a private company which can be distributed as tax-free capital dividends to the company's Canadian shareholders.

One source of the surpluses tracked is the untaxed portion of the company's capital gains, which is generally one-half of the gain realized. When a corporation makes a donation of marketable securities to a charity, no portion of the capital gain is subject to tax. As a result, the company's capital dividend account is increased by the full amount of the gain realized, which significantly increases funds available to be distributed tax free to shareholders.

Things to Remember

You do not have to claim donations made this year on your current year's tax return. Any donations not claimed in the current year may be carried forward for use over the next five taxation years.

Also, by administrative concession, the Canada Revenue Agency generally allows individuals to claim on their tax returns charitable donations made by their spouses. This provides tax relief where spouses are in significantly different tax brackets such that the charitable donation credit can be maximized within the family unit.

