Donating Investments Instead of Cash to Charity Has Big Tax Advantages

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(Note this is a Canadian Personal Finance and Investing Blog)

If you have a capital gain on some of your investments in your non-registered investment account and you are planning on donating to charity, you should know that instead of donating cash you might want to look at donating the investments directly to the charity instead (an 'in-kind' transfer). Recently the government legislated that any capital gains on investments donated directly to registered charities (or other qualified donees) would be free from taxes on the gains of the investment. Let's examine how this would be of benefit:

Suppose that you had stock that was worth $50,000 today for which you only paid $10,000 ten years ago. Let's also suppose that you are planning on selling that stock and giving the proceeds to charity. Your capital gain on that stock is $40,000 (Today's value of $50,000 less your purchase price of $10,000). The amount of that gain that is taxable is known as the 'taxable capital gain' and is 50% of the capital gain. So in this case the taxable capital gain is $20,000. Now, we have to multiply this taxable portion of the capital gain by your marginal tax rate to figure out exactly how much tax you have to pay on the gain of this stock. For this example, I will use an Ontarian who is comfortably in the highest marginal tax bracket of 46.41%. So if we multiply the taxable gain of $20,000 by 46.41% we arrive at a tax bill of $9,282.

That's a pretty hefty tax bill, but we also know that we can get considerable tax savings if we donate to charity. The taxes on the sale of the stock aren't due until you file your taxes, so you would have the full $50,000 to donate in this case. If we do this, then a tax credit of $23,205 is generated. Your overall tax savings is $13,923 ($23,205 in tax saved for donating to charity less $9,282 in tax paid on the capital gain of the stock).

But if we instead donate the securities directly to the charity – there will be no capital gains taxes to pay. In this case, we only have to calculate that the tax credit earned on $50,000 is $23,205. And that's all we have to calculate. This is a savings of almost $10,000 in this case ($23,205 taxes saved versus $13,923 taxes saved in the previous example). As you can see, the government is trying to encourage donation to charity by providing generous tax relief for doing so.

So if you have a capital gain on an investment in your non-registered investment account and you are planning on donating a significant sum to charity, you could instead donate the securities directly to the charity to realize some significant tax savings. You could always re-purchase the securities with the cash you had planned on donating instead if you still want to own the investment. In this case, you would be re-setting the Cost Base of the stock at a higher price (which is good).

Make sure to check if the charity will accept in-kind share transfers as not all of the smaller charities have the ability to do so. And of course, make sure to consult with a qualified tax advisor before engaging in any financial planning strategy.

Note: Also consider naming Beacon in your will as a legacy.