

Donation of publicly traded securities

## Susan and Jill's tax savings from donating securities in-kind to charity.

Best friends Susan and Jill are lifelong Manitobans with a strong connection to their community who support several charities that are important to them. This year, they have decided to make a large donation to their respective GiftPact Foundation Donor-Advised Funds (DAF), which they plan to direct to a charity embarking on an ambitious capital campaign. They had both planned to sell investments they own to finance the donation.

Following a discussion with their advisor, Susan and Jill learned that they could realize significant tax savings by donating the publicly traded shares they hold in-kind rather than the cash from their sale.

### How capital gains and in-kind donations work

Publicly traded securities are traded freely on the open market and include shares, stock options, bonds, and units in mutual funds.

In Canada, the sale of securities is subject to a 50% inclusion rate (meaning 50% is taxable) on the capital gains realized from the sale of the shares. However, as of June 25, 2024, if an individual has capital gains that exceed \$250,000 in a year, the gains above that amount are subject to a 66.67% inclusion rate (meaning 2/3 is taxable). A capital gain refers to the profit the investor has made on the asset since they purchased it, that is, the proceeds of sale less the original cost of those shares (with some adjustments, known as the "adjusted cost base").

However, if the investor transfers the securities directly to a registered Canadian charity instead of selling them, they **are exempt from capital gains taxation**. Additionally, the investor donating the securities will receive a charitable donation receipt for the value of the shares.

## How much Susan and Jill saved in taxes

Susan and Jill's situations are in different when it comes to their in-kind donation of publicly traded securities to charity.

Susan aimed to donate \$100,000 to her chosen charity's capital campaign through her GiftPact DAF. Her appreciated securities had a fair market value of \$100,000 and an adjusted cost base of \$50,000. She had a net annual income of over \$250,000, and her other charitable gifts exceeded \$200. Susan's other capital gains for the year exceed \$250,000.

The following chart compares the tax outcome of Susan donating cash through the sale of shares vs. transferring them directly to a registered charity.

DESCRIPTION	SALE OF SECURITIES AND CASH DONATION		DONATION OF SECURITIES IN-KIND	
VALUE OF SHARES/DONATION (A)	\$	100,000	\$	100,000
COST BASE OF SHARES (B)	\$	50,000	\$	50,000
CAPITAL GAIN ((A-B) = C)	\$	50,000	\$	50,000
CAPITAL GAIN INCLUSION RATE (D)		66.67%		0%
TAXABLE CAPITAL GAIN ((C X D) = E)	\$	33,335	\$	-
TAX ON TAXABLE CAPITAL GAIN (E X 50%)	\$	16,668	\$	-
DONATION TAX CREDIT (A X 50%)	\$	50,000	\$	50,000
<b>NET TAX SAVINGS (TAX LESS DONATION CREDIT (f))</b>	<b>\$</b>	<b>33,333</b>	<b>\$</b>	<b>50,000</b>
<b>NET AFTER-TAX COST OF DONATION (A - F)</b>	<b>\$</b>	<b>66,668</b>	<b>\$</b>	<b>50,000</b>

Upon reviewing these two options, it was clear to Susan that transferring her shares to her GiftPact Foundation DAF was to her advantage, **reducing the cost of donating by \$16,668.**

Jill also aimed to donate \$100,000 to the charity's capital campaign through her GiftPact DAF. Her appreciated securities had a fair market value of \$100,000 and an adjusted cost base of \$50,000. She had a net annual income of over \$250,000, and her other charitable gifts exceeded \$200. Where Jill differed from Susan was that her capital gains for the year were minimal.

The following chart compares the tax outcome of Jill's donating cash through the sale of shares vs. transferring them directly to a registered charity.

DESCRIPTION	SALE OF SECURITIES AND CASH DONATION	DONATION OF SECURITIES IN-KIND
VALUE OF SHARES/DONATION (A)	\$ 100,000	\$ 100,000
COST BASE OF SHARES (B)	\$ 50,000	\$ 50,000
CAPITAL GAIN ((A-B) = C)	\$ 50,000	\$ 50,000
CAPITAL GAIN INCLUSION RATE (D)	50%	0%
TAXABLE CAPITAL GAIN ((C X D) = E)	\$ 25,000	\$ -
TAX ON TAXABLE CAPITAL GAIN (E X 50%)	\$ 12,500	\$ -
DONATION TAX CREDIT (A X 50%)	\$ 50,000	\$ 50,000
<b>NET TAX SAVINGS (TAX LESS DONATION CREDIT (f))</b>	<b>\$ 37,500</b>	<b>\$ 50,000</b>
<b>NET AFTER-TAX COST OF DONATION (A - F)</b>	<b>\$ 62,500</b>	<b>\$ 50,000</b>

Upon reviewing these two options, it was clear to Jill that transferring her shares to her GiftPact Foundation DAF was to her advantage, **reducing the cost of donating by \$12,500.**

**Be a savvy philanthropist**

How you structure your charitable gift is often just as important as the amount you give, both for the charity and for you as the donor. In-kind securities donations are a smart and tax-effective alternative to a cash gift.

If you would like to learn more about donor-advised funds and how GiftPact Foundation can maximize the impact of your charitable giving, please get in touch.

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