

## Bob's tax savings from donating private corporation shares to charity

Bob runs successful businesses and wants to give back to the community by making a large gift to the service organization that supported him as a student. He plans to facilitate this gift through his GiftPact Donor-Advised Fund, which he set up several years ago to manage all of his charitable giving.

Bob wants to donate \$100,000 to the registered charity, but most of his money is tied up in his company. Fortunately, as the result of previous estate planning, Bob owns fixed-value preferred shares in his company worth \$100,000, with an adjusted cost base (ACB) of \$1 and paid-up capital (PUC) of \$1.

Bob has two options:

- Redeem their preferred shares, take the deemed dividend and donate the cash to GiftPact.
- Donate their fixed-value preferred shares in-kind to GiftPact.

### How gifts of shares in a private corporation work

While there is no capital gains tax on **gifts** of publicly traded securities to a charity, different rules apply to gifts of shares in a private corporation.

If you redeem your shares and donate the cash, it will trigger a dividend. On the other hand, if you make an in-kind donation of private corporation shares to a charity, you must pay tax on any capital gain arising from those shares at the time of your gift.

Canada taxes capital gains at a lower rate than dividends. So, gifting your shares in-kind rather than donating the cash from their redemption should result in lower taxes.

## How much Bob can save in taxes

Capital gains in Canada are taxed at a 50.0% inclusion rate. Let's look at the math in the following charts:

### Bob's 100,000 gift (at a 50.00% inclusion rate)

Option A: Take Dividend and Donate Cash	
Tax on Redemption	\$ (46,670) (\$99,999 dividend x 46.67%)
Donation Tax Credit	\$ 50,400 (Donation of \$100,000 x 50.40%)
Net Tax Savings	\$ 3,730

Option B: Donate Private Company Shares (in-kind)	
Tax on Capital Gain	\$ (25,200) (\$99,999 capital gain x 25.20%)
Donation Tax Credit	\$ 50,400 (Donation of \$100,000 x 50.40%)
Net Tax Savings	\$ 25,200

**Bob increased his tax savings by \$21,470** by donating his private company shares in-kind to his GiftPact DAF rather than redeeming them and donating the cash.

## Planning points

Complex rules apply to the donation of shares in a private corporation. The CRA considers this type of share a non-qualifying security. Getting a charitable receipt for the donation of private company shares depends on whether the CRA considers the non-qualifying security an excepted gift.

### Non-Qualifying Security Excepted Gift Criteria:

- The security is in the form of a share.
- The charity receiving the gift is not a private foundation.
- The donor deals at arm's length with each of the charity's directors, officers, and like officials.

The following tax planning benefits could apply if the private company shares are an excepted gift:

- You will realize a taxable capital gain rather than a taxable deemed dividend on the donation of the shares in-kind compared to redeeming the shares and donating cash.
- When the corporation redeems the shares from GiftPact it could result in the corporation realizing a refund from its refundable dividend tax on hand (RDTOH) pool.<sup>1</sup>

There could be other potential implications for the redemption of shares in a private corporation. Proper planning and professional tax advice are important prior to initiating a donation of shares in private corporations. Donations can be claimed up to 75% of an individual's net income for the year. Any unused donations can be carried forward for up to five years.

GiftPact would be happy to assist you in determining if this strategy is appropriate for you.

## 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 donations of private company shares are a smart and tax-effective alternative to a cash gift.

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<sup>1</sup> On a redemption of \$100,000 of shares in a private corporation a dividend refund of \$38,330 could be realized by the corporation as long as it has a sufficient balance in its RDTOH accounts.

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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