Portfolio Advisor

Fall 2020

Giving in-kind: a double dose of good

As year-end approaches, consider the perfect trade: being kind with "in-kind" charitable donations.

The coronavirus pandemic has been an historic challenge for charities, as the number of those in need has skyrocketed. Conversely, the historic bull market run of the last 11 years has left many investors sitting on large capital gains in their stock portfolios. Combine the two, and, as we approach year-end, many investors have an ideal opportunity to be kind by giving securities (such as stocks) in-kind, providing to those in need while generating significant potential savings on their tax bills.

COVID crisis: the burden has not fallen equally

The arrival of the coronavirus has been shocking, deeply unsettling, and for some even tragic. However, after a period of adjustment, most Canadians have found ways to successfully adapt to the "new normal" by finding ways to fill our personal time, adopting new technologies to continue to work and connect with friends and family, and even using the opportunity to better appreciate our lives and to spend quality time with our loved ones.

But for the many – too many – who were already marginalized, living with food and/or shelter insecurity, or just getting by paycheck to paycheck, the pandemic's impact on the labour market and the economy has been devastating. According to the United Way of Canada, it's been particularly hard on women and children. Low-income earners have often been the first to put their health – and the health of their families – on the line just to keep their jobs. Many of the pandemic period job losses have hit the working poor the hardest, and have been the slowest to come back. The Toronto Daily Bread Food Bank has reported an increase in demand of more than 300% since the pandemic hit.

Donating cash vs. donating shares

	Sell shares and donate cash	Donate shares directly
FMV of donation (a)	$2,000	$2,000
Adjusted cost base	$1,000	$1,000
Capital gain	$1,000	$1,000
Taxable capital gain	$500	$0
Tax on capital gain ($500 x 50%) (b)	$250	$0
Donation tax credit ($2,000 x 46%) (c)	$920	$920
Total cost of donation = (a) + (b) - (c)	$1,330	$1,080

Assumptions: Net tax savings from donating shares: $250 ($1,330 - $1,080), assuming that donations of $200 have already been made. Marginal tax rate of 50%; donation tax credit of 46%. Also assumes the person has taxable income below the top bracket and donations in excess $200.

A capital idea: making the most of your charitable giving

Giving securities in-kind to charities is a smart way to support the causes that matter to you, help those in need during these difficult times, and can help reduce your tax bill.

In general, under Income Tax rules, a Canadian taxpayer can claim a charitable donation of up to 75% of their net income (or 100% in the year of death and the year before). Any excess can be carried forward for up to five years. And the more you give, the greater the impact: donations of less than $200 generally produce a tax credit of approximately 24%, while those above $200 attract a tax credit of approximately 48% (note: tax credits vary depending on the donor's province of residence, taxable income and the amount donated).

Here's where in-kind donations come in: donating the full market value of securities instead of selling those securities first, incurring capital gains and then donating the net, after-tax cash amount, maximizes your donation to those in need, while helping to reduce your tax bill.

Giving in-kind is a great way to significantly enhance the impact of your generosity. Talk to us about your charitable giving strategy and the most effective way for you to take advantage of donating securities in-kind.