CIBC PRIVATE WEALTH

CIBC FAMILY OFFICE

THE “TRIPLE BENEFIT” CORPORATE DONATION STRATEGY

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Kate helps clients consider their social legacy, whether that means giving to charities and non-profits, volunteering or making socially responsible investments.

Kate is a lawyer called to the Bar in Ontario and is a certified financial planner (CFP). Prior to joining CIBC, she spent 15 years practicing charity and non-profit law at a national law firm. Kate has been recognized for her expertise by the Canadian Legal Lexpert Directory and Best Lawyers in Canada. She is an executive member of the Charity and Not-for-Profit Section of the Canadian Bar Association.

Kate is a frequent writer and speaker on charity and non-profit issues.

Executive Summary

Donating to a cause you're passionate about speaks volumes about you and your legacy. In Canada, the tax incentives to promote your charitable giving make it easier to donate. In this piece, we'll explore three tax benefits that can lower the cost of gifting to the causes you support.

Notably, if you're a shareholder in a private corporation, such as a holding company, and you want to support a charitable cause, then consider gifting eligible securities from your private corporation. This gift offers the benefits of a corporate charitable tax deduction, no capital gains tax, and tax-free dividends for the shareholder.

Whether you're donating personally or from a corporation—Canada has significant tax incentives designed to promote charitable giving. The cost of gifting can drop further when you gift appreciated, eligible securities.[1] Let's take a look at each of the tax incentives of gifting eligible securities from a private corporation.

1. First benefit—Corporate charitable tax deduction

When your corporation donates eligible securities to a registered charity, the corporation receives a charitable tax receipt for the fair market value of the securities on the date the shares are gifted. The corporation can deduct the fair market value of the gift from its taxable income for the year.

Note that the maximum charitable tax deduction that can be made each year is equal to 75% of the corporation's taxable income, and any unused amount can be deducted in the next five tax years. The value of the charitable tax deduction depends on the corporation's tax rate, which will vary depending on the type of income: small business income, general rate income or investment income.

2. Second benefit—No capital gains tax

When your corporation gifts eligible securities directly to charity, then there is no capital gains tax on any inherent gain on the gifted securities. This benefit is only available if your corporation gifts the securities themselves to the charity, rather than selling the securities and gifting the cash proceeds from the sale.

3. Third benefit—Tax-free dividend for the shareholder

When your corporation gifts eligible securities the full amount of the capital gain is added to the corporation's capital dividend account (CDA). Amounts in the CDA allow the corporation to pay tax-free dividends to the shareholders.[2]

Usually, only half of a capital gain is added to the CDA, but where eligible securities are gifted to charity the entire non-taxable gain is added to the CDA. This extra amount in the CDA can save the shareholder tax because the corporation can pay a tax-free dividend. The amount of tax saved isn't a simple calculation because you need to consider that if the corporation pays a taxable dividend, then it could receive a dividend refund and the shareholder has a dividend gross-up, and dividend tax credit.

Example: Gift of $10,000 worth of securities

Let's take a look at an example of a charitable gift of securities from a corporation owned by a sole shareholder.[3] The eligible securities are worth $10,000, with an adjusted cost base of $4,000. We've assumed the corporation has $100,000 in operating taxable income, which is taxed at the general corporate rate. We share three scenarios in the chart on the next page.

Scenario 1: In the "Donate securities" column, we assume that the corporation makes a gift of $10,000 worth of securities and pays a tax-free dividend to the shareholder of the full amount of funds added to the CDA.

Scenario 2: In the "Donate cash" column, the corporation makes a gift of $10,000 in cash and pays a dividend of an amount that would leave the same amount of funds in the corporation as the first scenario.

Scenario 3: In the "No donation" column, the corporation doesn't make a gift to charity and the corporation pays a dividend that leaves the same amount of funds in the corporation as the first two scenarios.

In all three scenarios, the corporation has $70,150 of retained funds after paying taxes and dividends.

If the corporation chooses not to donate, then the sole shareholder receives $8,722 from the corporation from the sale of the marketable securities, after all taxes have been paid. In the other scenarios, the charity receives $10,000 and the shareholder personally receives either $6,000 if they donate securities or $4,263 if they donate cash.

As you can see, it's more beneficial for the shareholder for the corporation to donate securities in-kind to charity, rather than donating cash. The final cost to the shareholder to gift $10,000 of appreciated securities in the corporation is only $2,722 compared to $4,459 where the corporation sells the securities, realizes the gain, and then makes a $10,000 cash gift.

[1] Eligible securities include stocks or bonds listed on a designated stock exchange, and certain mutual fund units or segregated funds.

[2] Other transactions can impact the ability to pay amounts out of the capital dividend account. Confirm with your tax professional that you will be able to benefit from an amount in the corporation's capital dividend account.

[3] Example courtesy of Jay Goodis at Tax Templates Inc. based on the corporation earning active business income at the general corporate tax rates and a shareholder in Ontario at the highest marginal personal tax rate. All calculations using 2022 tax rates.

Private corporation taxation

Item	Donate securities	Donate cash	No donation
Proceeds (A)	$ 10,000	$ 10,000	$ 10,000
Less: Adjusted cost base (B)	(4,000)	(4,000)	(4,000)
Capital gain (A – B)	**6,000**	**6,000**	**6,000**
Corporate income	100,000	100,000	100,000
Less: Federal taxes	(15,000)	(15,000)	(15,000)
Less: Provincial taxes	(11,500)	(11,500)	(11,500)
Net cash after corporate taxes (before donation)	**73,500**	**73,500**	**73,500**
Invested assets	10,000	10,000	10,000
(Donation)	(10,000)	(10,000)	-
Tax savings/(cost)[4]	2,650	1,145	(1,505)
Net cash after corporate taxes (after donation)	**76,150**	**74,645**	**81,995**
Net cash after corporate taxes (after donation)	76,150	74,645	81,995
(Capital dividends)	(6,000)	(3,000)	(3,000)
(Taxable dividends)	-	(2,415)	(9,765)
Dividend refund	-	920	920
Net cash remaining in corporation	**70,150**	**70,150**	**70,150**

Individual taxation

Item	Donate securities	Donate cash	No donation
Capital dividend (D)	6,000	3,000	3,000
Taxable dividends[5] (E)	-	2,415	9,765
Less: Personal taxes (F)	-	(1,152)	(4,043)
Net cash to individual (D + E – F)	**6,000**	**4,263**	**8,722**
Charity donation amount	10,000	10,000	-
Cost of donation (compared to no donation and pay as a dividend)	**$ 2,722**	**$ 4,459**	-

What it means for you

If you're a shareholder of a private corporation and want to give back to your community, then you should consider taking advantage of the triple benefit of gifting eligible securities from your corporation. Calculating these tax benefits can be complex, so it's best to speak with your tax advisor to ensure you receive advice tailored to your specific situation.

[4] This represents the net savings/(cost) to the corporation from the taxable capital gain to the corporation and/or the donation deduction to the corporation, as applicable.

[5] Includes $2,400 of other than eligible dividends with the balance as eligible dividends.

CIBC Family Office helps you and your family manage the complexities of multi-generational wealth. Working with our clients to help them organize and understand the intricacies of wealth ownership, we develop a plan that is tailored to each individual family, responsive to the needs of each member and reflects the family's current and future vision.

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