Charitable tax incentives can work generously for you

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The government encourages the donation of publicly traded securities (including mutual funds and segregated funds) to charitable organizations and public foundations by completely eliminating the tax on any accrued capital gains arising from the disposition to charity. This can significantly benefit you and, most importantly of course, the charity.

Donation tax credit

Before reviewing the opportunity for donating securities in-kind in detail, let's take a quick look at how the basic donation credit rules work.

Donations you make to a registered charity in Canada are eligible for the donation tax credit. For the first $200 of donations you make in the year, the federal donation credit is 15%.

Each province also provides a provincial donation tax credit. For example, the Ontario provincial credit is an additional 5.05%, for a combined total credit of approximately 20%. In other words, Ontarians would be entitled to a $40 credit for the first $200 of annual donations.

It gets even better. Once you've made at least $200 of donations in any year, the donation credit jumps to 29% federally, plus between about 11.5% and 21.8% provincially, depending on your income tax bracket and whether you are subject to the high-income surtaxes in your province. The federal donation credit rate is 33% to the extent your taxable income is in the top federal marginal tax bracket, which begins at $253,414 in 2025.

So, for donations in excess of the first $200, you would get a tax credit at a minimum 40% of the amount you donate. Given that the benefit from donations is in the form of tax credits (a credit is a reduction of tax owing) as opposed to tax deductions (a reduction of taxable income), the credits are essentially worth the same for low-, middle- and high-income earners below the threshold for the 33% credit (ignoring the effect of any high-income provincial surtaxes).

The donation tax credit is non-refundable, meaning that you can only claim the credit to reduce taxes payable to zero. If any portion of your donation is not needed to reduce taxes payable in the current year, the unclaimed portion can be carried forward and claimed in the following 5 years.

A case study

To understand the impact of donating securities in-kind, let's assume Mark currently owns mutual funds that have a fair market value of $100,000 that he purchased many years ago for $20,000 (see chart below). He is considering donating these mutual funds to charity. If he sold the mutual funds first, and donated the sale proceeds, he would realize a capital gain of $80,000 and pay tax of about $18,000 on the gain[1], assuming a marginal tax rate and donation tax credit rate of 45%. His net benefit, taking into account the value of the donation credit less the tax on the capital gain, would be about $27,000 (Column A).

If Mark donated the mutual fund units directly to charity instead of selling them first, the capital gains tax would be eliminated and, since Mark would still be entitled to his full tax receipt for the $100,000 contributed, his net benefit would be $45,000 (Column B).

Comparison of tax savings from cash donation vs. in–kind donation

Description	Cash donation, in dollars (A)	Value of in-kind donation, in dollars (B)
Fair market value of donation	100,000	100,000
Adjusted cost base (assumed)	(20,000)	(20,000)
Capital gain	**80,000**	**80,000**
Taxable gain (50% vs. 0%)	40,000	0
Tax on taxable gain (at 45%) (a)	(18,000)	0
Tax credit from gift (at 45%) (b)	45,000	45,000
Net tax benefit (a) + (b)	**27,000**	**45,000**
Tax savings from donating in-kind instead of cash	**n/a**	**18,000**

1 Assuming that Mark has up to $250,000 of total capital gains and stock option benefits.

What if you want to continue to own this strong-performing mutual fund? No problem. Simply repurchase the fund just donated.

By doing so, not only will you get your donation credit, you won't pay capital gains tax on the disposition and your adjusted cost base will be "bumped up" or "reset" to the current fair market value, limiting any future capital gains tax on your ultimate sale to subsequent increases in value.

You can also donate any depreciated asset to charity and claim the capital loss to be used against either capital gains realized in the current year or carried back and used against any gains you may have realized in the prior 3 years. The capital loss may also be carried forward indefinitely to future years. Be careful to wait 30 days to repurchase the asset so that the loss is not denied under the superficial loss rules.

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