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Re: Tax planning with regards to donation of stock to a registered charity

We were asked, recently, to illustrate the benefits of donating stock directly to a registered charity, for tax purposes. For the sake of an example, consider a single pensioner who plans to make a significant donation.

Base level

- Income of $73,000 (OAS, CPP, RRIF and other investments)
- No donations
- Result - $14,500 of income taxes owing, approximately

Sale of stock and donation of proceeds

- Our pensioner sells stock worth $40,001 that was purchased for just $1 many years ago (for the purposes of illustration)
- The funds are subsequently donated to a registered charity
- The taxable capital gain of $20,000 is largely offset by donation tax credits, but the additional reported income triggers a claw-back of his or her Old Age Pension
- Result - $5,300 of income taxes and Old Age Pension owing, approximately

Donation of stock directly to the registered charity

- Now, rather than selling the stock and donating the proceeds, the stock itself is donated directly to a registered charity
- There is no inclusion of taxable capital gains and no claw-back of his or her Old Age Pension
- He or she receives the full tax credit for the $40,001 donation
- Result - **No income taxes or claw-back owing**

In this situation, the pensioner has donated something worth $40,000, but has reduced their taxes and claw-back by $5,300 as a result.

To take this one step further, if the pensioner sold the $40,000 of stock and decided to simply keep the money his or her combined tax bill plus Old Age Pension claw-back goes to $22,600.

In conclusion, this pensioner has an opportunity to make a $40,000 contribution to a registered charity for a cost of only $17,400 to him or herself. We have begun advising our clients to take advantage of this philanthropic opportunity. It makes a lot of sense to redirect taxes year after year toward community initiatives.

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