



MACKENZIE
Investments

In-kind donations

Tax benefits of in-kind donations



Intro

According to Statistics Canada, 84% of Canadians give to charity annually, with approximately \$10.6 billion worth of those assets invested back into the community. Charitable giving provides an opportunity for Canadians to support causes that matter most to them and can also be important to your financial, estate and tax planning, and legacy planning.

One way to give is to transfer assets to registered charities, including the donation of publicly listed securities, mutual funds, exchange-traded funds or segregated funds. This paper demonstrates how a transfer of assets to a registered charity can often benefit you more than donating cash.

Charitable tax credits and in-kind donations

When you donate to a registered charity, the government provides a non-refundable tax credit that can reduce your tax payable.

Did you know: The charitable donation tax credit (CDTC) consists of a federal and provincial tax credit that varies by province or territory.

- Federally, there are two levels of tax credits that apply to donors, based on their taxable income and the amount of the donation.
- This consists of a 15% rate on the first \$200 donated.
- And, a 29% rate on the amounts above \$200.
- For high-income donors (over \$246,752 net income annually) the federal tax credit is 33%.

Generally, you can donate cash, in-kind, life insurance or other assets. When an asset or property is gifted to charity, it's deemed to be received by the charity at fair market value. You can donate publicly listed securities directly and then have the charity liquidate them. This eliminates any taxable capital gain and enhances your tax benefit.

Publicly listed securities include:

- Shares of capital stock in a mutual fund corporation
- A unit of a mutual fund trust
- Interest in related segregated funds
- Government of Canada or provincial government bonds

In-kind donations can also be made by an Operating Company or a Holding Company

Making charitable donations through an operating company or a holding company can also have attractive benefits. An in-kind donation of an appreciated public security can produce an extra benefit for corporate shareholders. A personal donation will receive a donation tax receipt that can be used as a tax credit against personal tax payable, to a maximum of 75% of net income for the donor and/or spouse. Any unused tax credits can be carried-forward for use in any of the following five years.

By comparison, a corporate donation will receive a donation tax receipt that can be used as a deduction to reduce the before tax income of the operating company or the holding company, again to a maximum of 75% of income. Any excess can be used in any of the following five years. In-kind donations have the capital gain taxes eliminated in both scenarios; but the corporate donation will increase the capital dividend account of the company by 100% of the non-taxable capital gain. The capital dividend account (CDA) can then be used, under most circumstances, to pay a non-taxable dividend to the shareholders.

How the capital gain is eliminated for individual donors

When donating a publicly listed security with accrued capital gains, you will generally be able to benefit from the elimination of capital gains tax, plus the donation tax credit. The example below illustrates the comparison between selling \$50,000 in non-registered mutual funds then donating the cash, and donating the funds in-kind.

	Sell and donate cash	Donate in-kind
Fair market value of donation (X)	\$50,000	\$50,000
Adjusted cost base	\$10,000	(\$10,00.00)
Capital gain	\$40,000	\$40,000
Capital gain inclusion rate	50%	0%
Taxable capital gain	\$20,000	\$0
Tax (assuming 46% rate) (Y)	(\$9,200)	\$0
Net tax savings (Z)	\$23,000	\$23,000
Total cost of donation (X+Y-Z)	\$36,200	\$27,000

As you can see, there is a significant tax saving when securities are donated in-kind, rather than selling them and donating the cash.



The donation receipt in either case is the fair market value of \$50,000, resulting in a tax credit that can be used to offset your income tax owing by up to 75% of net income in the year of donation. If there are excess tax credits, they can be carried forward and used in any or all of the next five years. In the year of death, the donation tax credit can be used against up to 100% of net income in the year of death or previous year. Under certain circumstances, the tax credit can be used for the estate itself.

Tax reporting for in-kind donations

When an in-kind donation is made, the financial institution releasing the security will provide you with a T5008 record of disposition. This shows the donated asset's adjusted cost base and fair market value.

To offset the capital gain being reported by the financial institution, the Canada Revenue Agency provides form T1170 that must be used to:

- Properly calculate the adjusted capital gain and the amount of the security that was donated to charity.
- Remove the capital gain amount so that it's not included on your income tax return.

This form, which is available on the [CRA website](#), requires information regarding the proceeds, the adjusted cost base, the capital gain, the eligible amount of the gift and the amount of capital gain that is eligible for 0% inclusion.

Summary

By making in-kind donations, rather than giving cash, you could save thousands in tax each year depending on how much you donate. To find out more, please talk to your financial advisor.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual funds. A charitable administration fee and charitable operating expenses will also apply. Please read the prospectus before investing and the program guide before donating. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information is general in nature and is not intended to be professional tax advice. Donations should not be made for tax considerations alone. Each donor's situation is unique and advice should be received from a financial advisor.

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