TD Wealth

Private Corporations and Charitable Giving

What Strategies Work for You?

Private corporation owners have unique ways to engage in charitable giving that may also provide them with tax benefits tailored to this type of giving.

Personal versus Corporate Giving

When publicly traded securities appreciate in value, capital gains tax is generally owed when you sell or dispose of the securities. Currently, 50% of a realized capital gain is included in taxable income. However, if you donate those securities to a registered charity instead, your taxable capital gain may be reduced to zero.

If you own a private corporation, the donation of your publicly traded securities could be made by your company. When you make the donation personally you will receive a tax receipt that will generate a tax credit. The corporation, on the other hand, receives a tax deduction, reducing its income and therefore its taxes payable. The donation limit that may be claimed by either an individual or a corporation in a given year is 75% of net income. Any excess can be carried back one year or forward for five years or over the next 10 years for a gift of ecologically sensitive land made after February 10, 2014. Carrying back one year is only available for an individual in the year of death.

The key difference between giving personally or through your private corporation is that the latter will have a notional account called a capital dividend account (CDA), which can make gifting through a corporation a preferable option. The CDA is credited with the non-taxable portion of any capital gains and the balance of the CDA can then be paid tax free to the company's shareholder(s).

Donating securities through your Holding Company

When an in-kind donation of securities is made by a holding company of securities with an accumulated capital gain, the gift can create tax savings on a different level. An in-kind donation means that the company donates the actual securities to the charity, and then the charity sells them. The charity issues a tax receipt corresponding to the fair market value of the securities at the time they are donated.

Here are the tax advantages:

- The donation receipt will result in a deduction against the net income and consequently a reduction of the taxes payable by the corporation.

- The donation creates a capital dividend balance for the corporation's CDA, which can normally be used to distribute assets on a tax-free basis to its shareholders.
- The combined donation and CDA distribution reduce the value of the company and potentially any capital gains on the death of the shareholder.

Donating securities and adding insurance

The tax savings accrued in the strategy set out above can be augmented by having the holding company buy a life insurance policy on the life of the holding company shareholder. The tax savings arising at death can be passed on to the shareholder's named beneficiaries via their estate. Alternatively, the life insurance proceeds could be used to make an additional charitable gift.

Considerations

Speak to your TD advisor about taking advantage of the tax benefits of donating publicly traded securities through your private corporation rather than making the donation personally. Your TD advisor can also arrange for you to investigate related life insurance strategies.

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