



# TaxNewsFlash

Canada

## Make the Most of Your 2024 Charitable Donations

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As the end of 2024 draws near, you may be thinking of ways to contribute to your favourite registered charities. Charitable donations are a great way to support the causes that are important to you, and they can help reduce your taxes owing for 2024. Before making your donations, you may want to consider the best way to do so, as your tax savings may be improved by making gifts of a certain type. Whether you ultimately choose to make a cash donation or a gift of property (known as a “gift-in-kind”), you will still have to make your charitable gifts by December 31, 2024, if you want to claim the donation tax credit on your 2024 tax return.

Generally, your after-tax cost for a \$1,000 cash donation in 2024 can range from a low of \$452 to a high of \$555 if you are a “high income earner” with income of more than \$246,752, and from a low of \$492 to a high of \$595 if your income is at or below that amount (depending on your province/territory of residence). However, it is important to note that you can now only claim 80% of your donation tax credit when calculating alternative minimum tax (AMT).

Making a gift-in-kind, such as a donation of publicly traded securities, instead of cash may increase the tax benefit of your donation, especially since the federal government has an outstanding proposal to increase the inclusion rate for capital gains realized on or after June 25, 2024. In particular, the federal government is proposing to increase the inclusion rate for individuals to  $\frac{2}{3}$  (from  $\frac{1}{2}$ ) on the portion of capital gains realized in excess of \$250,000. For more information, see *TaxNewsFlash-Canada* 2024-37, [“Capital Gains Inclusion Increase — Finance Adjusts New Rules”](#). However, note that gifts-in-kind may now be subject to AMT.

If you are planning to make substantial charitable donations before the end of the year, contact your KPMG tax adviser to determine the after-tax cost of your donation and to

consider your donation options.

### Tax credits for charitable donations

As an individual donor, your charitable donations entitle you to a three-tier tax credit. The first \$200 of annual donations is eligible for a 15% federal tax credit, plus the applicable provincial/territorial tax credit. Donations above that level are eligible for a 29% federal tax credit (or a 33% federal tax credit to the extent your income is above \$246,752 and subject to the 33% tax rate), plus the relevant provincial/territorial tax credit. See the combined federal and provincial/territorial donation tax credit rate and corresponding after-tax cost of a \$1,000 donation in 2024 in the table in Appendix I.

You should also keep in mind that there are income limits for charitable donation claims. The maximum amount of donations you can usually claim in a year is 75% of your net income (100% in the year of death and in the year preceding death. If you have donation receipts that exceed your income limit, or if you choose not to claim a donation in the year you made it for other reasons, you can save the receipts and generally claim the credit in any of the following five years.

#### Example

Say you live in British Columbia and your income is under \$246,753. If you donate \$1,000 to charity in 2024, you will get a combined federal and provincial tax credit of 20.1% on the first \$200, which equals about \$40. For the remaining \$800 of the donation, you'll get a combined credit of 45.8%, equaling about \$366. As such, your total federal and provincial tax credit will be \$406, and the after-tax cost of your \$1,000 donation will be \$594 (i.e., a \$1,000 donation, minus the total of \$40 plus \$366 in tax savings). If you donate another \$1,000, you'll get a 45.8% credit for the whole amount, and the after-tax cost of the additional \$1,000 will be \$542 (i.e., a \$1,000 donation, minus \$458 in tax savings).

It is important to note that in your 2024 personal income tax return you can only claim 80% of your donations tax credit when calculating AMT.

### Gifts-in-kind — Donating shares and other assets

Donations of property other than cash, or gifts-in-kind, can include private securities, artwork or other collectibles and real estate, among other properties. To determine the tax credit for your donation, a gift-in-kind is valued at its fair market value at the time you make the gift. However, you are also deemed to have disposed of the property at that fair market value, which means that you must recognize any gain or income that would arise as if you had sold the property at that amount, subject to certain exceptions. Note that the federal government has an outstanding proposal to increase the inclusion rate for capital gains realized on or after June 25, 2024. More specifically, the federal government is proposing to increase the inclusion rate for individuals to  $\frac{2}{3}$  (from  $\frac{1}{2}$ ) on the portion of capital gains realized in excess of \$250,000.

In the case of a donation of capital property such as private securities, artwork or real estate, you may make an election to designate a value for the gift, between its cost to you and its fair market value, to avoid or reduce a capital gain (or recapture on

depreciable property). The tax credit for your donation will be based on the value you designate between your cost and the asset's fair market value.

The tax system also includes special incentives to encourage gifts of “certified cultural property” and donations of ecologically sensitive lands to the federal government, a province, territory or a municipality, or certain charities. Capital gains arising on the donation of these types of property are generally not taxable.

Note that gifts-in-kind may now be subject to AMT.

### *Donating publicly traded shares*

Charitable donations of eligible securities, including securities listed on a designated stock exchange, certain mutual funds and certain segregated funds of life insurance companies, are exempt from the capital gains tax. As such, you pay no tax on any gain realized in such securities. However, you should be aware that donations of these securities may now be subject to AMT.

These rules apply to donations of securities to private foundations as well as public charities, though private foundations are subject to tighter restrictions on the amount of shares they can own in a corporation (after taking into account non-arm's length party holdings).

#### **Cash vs. securities — Which should you donate?**

If, for example, you want to make a charitable donation now in 2024 (i.e., after June 24, 2024) and you have publicly traded securities that originally cost you \$1,000 and are now worth \$2,000, it's worth considering whether you should sell the securities and donate the proceeds, or simply donate the securities directly to the charity. Assuming you live in Ontario and your income is \$175,000 (i.e., you are taxed at a marginal rate of 48.0%), and you've already donated \$200 in the year, it may make more sense to donate the securities.

This is because if you decide to sell the securities and donate the before-tax proceeds, a \$1,000 capital gain will arise on the sale (\$2,000 proceeds - \$1,000 original cost). You would then have to pay \$320 in tax on the taxable portion of your gain ( $\frac{2}{3}$  assumed capital gains inclusion rate  $\times$  \$1,000  $\times$  48.0% assumed tax rate). Your \$2,000 donation will give you a tax credit of \$928 (46.4%  $\times$  \$2,000). In the end, the donation will result in net tax savings of \$608 (\$928 tax credit - \$320 capital gains tax). Or, put another way, the after-tax cost of making your donation will be \$1,392.

On the other hand, if you donate the securities directly, the charity will still get the full \$2,000 value, and the taxable portion of the \$1,000 capital gain will be tax-exempt to you. You will still get a tax credit of \$928 for the donation (46.4% of \$2,000). The net tax savings resulting from your donation in kind will be \$928, or \$320 more than if you sold the securities and donated the before-tax proceeds. Looking at it another way, the after-tax cost of your donation is reduced by \$320 to \$1,072 (from \$1,392) when you donate the shares directly.

For a numerical example of the tax benefits of a donation made on or after June 25, 2024 with the proceeds from the sale of securities compared with the direct donation of

the same securities, see the table in Appendix II.

## Ways you can donate

There are several ways you can make a donation. Some options include making donations through your will, having a corporation you own make a donation, and donating public company shares acquired under a stock option plan.

### *Charitable bequests and legacies*

Where charitable bequests are made by will, the donation tax credit can be allocated between the deceased and their estate, as described more fully below, as long as the estate qualifies as a “graduated rate estate” (GRE). Among other requirements, a GRE can only exist for up to 36 months after the death of an individual. A donation *made by a GRE* may be claimed as follows (subject to certain income limitations):

- In the GRE’s taxation year in which the donation is made
- In an earlier taxation year of the GRE, or
- In the deceased individual’s final return or in the individual’s return for the year immediately preceding their death.

If a *former GRE* makes a gift after the 36-month period but within 60 months of the date of death, and meets all the other requirements of being a GRE except for the 36-month time limit, a former GRE donation can generally be claimed in:

- The taxation year of the estate in which the donation is made
- An earlier taxation year of the GRE, or
- The deceased individual’s final return or the individual’s return for the year immediately preceding their death.

Any estate (including a GRE) can claim a charitable donation tax credit for a donation in the year in which the donation is made, or in any of the five following years. However, an estate that is not a GRE, or a former GRE, cannot allocate a donation made by the estate to an individual’s taxation year for the year of death or the immediately prior year or an earlier year of the GRE.

An exemption from capital gains taxation on gifts of publicly traded securities is available as long as the gift is made by a qualifying estate (i.e., a GRE or former GRE). However, this gift may now be subject to AMT.

A donation tax credit may also be claimed for donations of registered retirement savings plans (RRSPs), registered retirement income funds (RRIFs), tax-free savings accounts (TFSA) and life insurance proceeds made by a direct beneficiary designation on death.

In order to claim the donation in the estate (regardless of whether a GRE or not), the estate must have taxable income that is not legally payable to the estate’s beneficiaries. Otherwise, the donation tax credit may be “lost”.

### *Donations made by corporations*

If you own a corporation, you may want to consider having the corporation make a donation. While individuals receive tax credits, corporations can deduct donations made in determining taxable income, within specified limits. If your private corporation donates securities or other capital property, the non-taxable portion of the capital gain will increase the corporation's capital dividend account, and then the corporation can pay out this amount to its shareholders tax-free (assuming it has sufficient cash on hand). It's a good idea to compare the results of donating personally or through your corporation.

#### *Donating shares acquired through employee stock options*

If you are an employee and you donate public company shares acquired under a stock option plan to a registered charity, you may be eligible for an additional deduction. This deduction effectively reduces the related income inclusion to nil, the same as would apply to a capital gain realized on the donation of public company shares. Among other conditions, you must donate the shares to the charity within 30 days of the share acquisition (and in the same taxation year) under the stock option plan. Another condition is that the shares must qualify for the stock option deduction under the stock option rules.

It is important to note that this form of donation may now be subject to AMT.

#### **We can help**

Your KPMG adviser can help you evaluate the financial benefits of your gift to your chosen charity and the tax benefits to you or your corporation. We can also assist you in reviewing your will to help you determine if your charitable bequests will be made as you intend and are tax-effective for your estate.

## Appendix I: Combined Federal and Provincial/Territorial Tax Credits for Donations over \$200 in 2024

Province/Territory	Combined Federal and Provincial/Territorial Tax Credit Rate		After-Tax Cost of \$1,000 Donation in 2024	
	29% Federal	33% Federal	29% Federal	33% Federal
British Columbia	45.8%	49.8/53.5%*	\$542	\$502/465
Alberta	50.0	54.0	500	460
Saskatchewan	43.5	47.5	565	525
Manitoba	46.4	50.4	536	496
Ontario	46.4	50.4	536	496
Quebec	48.2/50.0**	53.3	518/500	467
New Brunswick	47.0	51.0	530	490
Nova Scotia	50.0	54.0	500	460
Prince Edward Island	47.8	51.8	522	482
Newfoundland and Labrador	50.8	54.8	492	452
Yukon	41.8	45.8	582	542
Northwest Territories	43.1	47.1	569	529
Nunavut	40.5	44.5	595	555

\* In British Columbia for income between \$246,753 and \$252,752 the rate is 49.8%, and for income over \$252,752 the rate is 53.5%

\*\* In Quebec for income up to \$126,000 the rate is 48.2%, and for income over \$126,000 the rate is 50.0%.

## Appendix II: Donation of Cash vs. Publicly Traded Securities — Example

	Sell Publicly Traded Securities and Donate Proceeds	Donate Publicly Traded Securities
Value of Donation (A)	\$2,000	\$2,000
Cost Base (B)	<u>1,000</u>	<u>1,000</u>
Capital Gain (A - B = C)	\$1,000	\$1,000
Capital Gain Inclusion Rate (D)	$\frac{2}{3}$ *	0%
Taxable Capital Gain (C x D = E)	<u>\$667</u>	<u>\$0</u>
Tax on E (assuming 50% marginal rate)	(\$333)	\$0
Donation Tax Credit (A x 50%)	<u>\$1,000</u>	<u>\$1,000</u>
Net Tax Savings (F)	<u>\$667</u>	<u>\$1,000</u>
Net After-Tax Cost of Donation (A - F)	\$1,333	\$1,000**

\* It is assumed that the individual taxpayer is subject to the top proposed capital gains inclusion rate of  $\frac{2}{3}$ , i.e. a donation is made in 2024 but only on or after June 25, 2024.

\*\* It is important to note that donations of publicly traded securities may now be subject to AMT.

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