

Tax Advantages to Donating Stocks to Your Church

Are you considering making a donation to your local church? Do you own stocks in a corporation which you are contemplating cashing in to fund the gift? If the answer to these questions is “yes,” there are potential tax benefits to directly donating the stocks to your church rather than selling them and giving a cash gift from the proceeds.

What are the Tax Consequences of Selling Appreciated Stocks?

When the selling price of a stock is higher than the amount at which they were bought, the stock is said to have appreciated, which essentially means it has increased in value. The amount of the increase in value between the purchase price and the selling price in the tax world is referred to as a capital gain. Under the Income Tax Act (the “Act”), when you sell appreciated stocks, half of the capital gain must be added to your taxable income for that given year. For example, if you sell stocks worth \$50,000 which you purchased for \$10,000, \$20,000 must be included as taxable income for you in the year the stocks were sold (half of the \$40,000 increase).

What are the Tax Consequences of Directly Donating the Appreciated Stocks to a Charity?

In order to promote charitable giving, the Act provides tax incentives when stocks are donated directly to charitable organizations like the church. Where the stocks are directly donated, the Act allows the capital gain to become tax exempt. In addition, the Act entitles the donor of the stock to a charitable receipt from the charitable organization in the amount of the fair market value of the stocks donated. The following example illustrates the potential benefits of these tax rules.

	Sell Stocks and Make Cash Donation from Proceeds	Donate Stocks Directly to the Church
Purchase Price	\$10,000	\$10,000
Selling Price	\$50,000	\$50,000
Capital Gain (Selling Price Less Purchase Price)	\$40,000	\$40,000
Taxable Capital Gain (50% of increase in value)	\$20,000	NIL
Income Tax Payable*	\$9,200	NIL
Donation to Charity	\$40,800	\$50,000
Tax Credit to Donor**	\$16,320 (40% of donated amount)	\$20,000 (40% of donated amount)
Net Benefit to Donor	\$7,120 (tax credit less taxes payable on capital gain)	\$20,000 (no deduction because the capital gain is tax exempt)

*highest tax bracket assumed **Ontario residency assumed

You will note that in the example above, donating the stocks directly to your church results in a much higher net benefit to the donor as well as a larger gift to your home parish. The gift to the church increases by \$9,200 (no taxes deducted from proceeds of sale of shares) and the net benefit to the donor increases by \$12,880 (no taxes payable on the capital gain and larger charitable receipt because of the larger gift to the church).

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