




WHAT DOES MY CHARITABLE DONATION ACTUALLY COST?





Charitable donations are important to many Canadians, providing a direct and impactful way to support the causes you care most deeply about. Donations can also provide tax benefits, which offset some of the cost of making your donation. However, not all charitable donations are identical from a tax perspective. Making strategic choices about your donations can provide real value.

There are several factors that can influence the cost of a donation, including, among other things, the type of donor (individual vs. corporation), the type of property to be donated (cash vs. qualifying investments), and the income level for individuals. We will analyze each of these in this guide.¹

¹The information in this article is intended for Albertan donors who are Canadian residents for tax purposes and who are not US citizens or tax residents. This information assumes the donation is made to a “qualified donee” for the purposes of the Income Tax Act (Canada). The case studies herein are simplified and may not apply to your own situation. There may be considerations not discussed in this article that are material to your decisions. You should discuss your tax planning with a qualified tax advisor acting on your behalf, to ensure you receive advice specific to your situation.

PERSONAL DONATIONS

Basic tax credit rates

When the donor is an individual—a person, rather than a corporation—the donor receives a donation tax credit.

A tax credit is different from a tax deduction. A tax credit can be applied to reduce your taxes payable directly. A tax deduction, on the other hand, reduces the amount of your income that will be subject to tax.

In Alberta in 2025, the donation tax credit depends on the amount of donations the donor has made in the year. The first \$200 of donations has an enhanced credit amount. Furthermore, if the donor's income is being taxed in the highest federal tax bracket (i.e., income over \$253,414), they will receive an additional federal tax credit of 4%, to the extent of that income. The tax credit rates are as follows:

	Federal Credit	Provincial Credit	Total Credit
First \$200 of donations	15%	60%	75%
All other donations	29%	21%	50%
Enhanced credit for top-rate income	33%	21%	54%

These credit rates apply to all qualifying personal donations made during the year and may be claimed by the donor or their spouse. A donor may only claim donations up to 75% of their net income for the year (with some exceptions). Any donations above that amount may be carried forward and claimed in any of the following five years.

Donations of publicly listed securities

The value of a donation can be even higher if the donor chooses to donate certain types of investments. Normally, if a person makes a gift of property, they are treated as if they have sold that property for its fair market value and would owe tax on any accrued capital gain at that time. In the case of a charitable donation, however, this tax bill can sometimes be avoided.

A special rule applies if a person makes a donation to a qualified donee of certain kinds of publicly listed investments. This includes most stocks and bonds listed on a stock exchange, as well as most Canadian mutual funds. If the donation qualifies, the capital gain on that property will not be subject to tax. You should confirm with your tax advisor whether your property qualifies for this special treatment before making a donation.

This rule can sometimes allow a donor to make a strategic decision when making their donation. Rather than donating cash, the donor may instead decide to donate a unit of a mutual fund in-kind. If they wish to keep their investment exposure, the donor could then choose to use idle cash to acquire new units in that same mutual fund. The donor would receive the same donation tax credit as a cash donation, but now their mutual fund unit would have a higher tax cost (adjusted cost base or ACB). That is, not only does the donor receive the tax credit they expected, they can also reduce their future capital gains taxes.

Case study: after-tax cost of personal donations

Cecil is an Alberta resident who is hoping to support a local charitable institution. He plans to donate \$10,000 to the charity and wants to understand the after-tax cost of making his donation.

Cecil has \$10,000 of idle cash in his bank account. He also has \$10,000 of mutual funds, which he originally bought for \$8,000. Cecil's tax advisor has confirmed that he has enough income for the year that he should be able to use the full amount of his donation tax credits. He has already donated around \$200 this year to another charity.

	Cash donation		Donation in-kind	
	Regular donation	Donation with top-rate income	Regular donation	Donation with top-rate income
Donation	(\$10,000)	(\$10,000)	(\$10,000)	(\$10,000)
Tax credit rate (federal and provincial)	50%	54%	50%	54%
Tax savings from donation tax credit	\$5,000	\$5,400	\$5,000	\$5,400
Accrued capital gain			\$2,000	\$2,000
Personal tax rate on gains			15.25% ²	24% ³
Tax savings from avoiding capital gains tax			\$305	\$480
Total cost of donation	(\$5,000)	(\$4,600)	(\$4,695)	(\$4,120)

In each case, Cecil loses access to the \$10,000 of value that he donates to the charity. However, his tax savings are significant. Once he has received his tax refund, Cecil's true out-of-pocket cost is only half of the donation's value or less.

For an in-kind donation, the savings are even more significant. Cecil is able to avoid the capital gains tax on the \$2,000 of growth his mutual funds experienced. After making the donation, Cecil is able to use the \$10,000 of idle cash in his bank account to acquire new units of that mutual fund. Those new units would have an ACB of \$10,000, with no accrued gain. By making the donation in-kind, Cecil was able to claim a large donation tax credit, while also avoiding tax in the future on his mutual fund investment.

²This column assumes Cecil has a marginal tax rate of 30.5%, which applies to income in Alberta in 2025 between \$60,000 and \$114,750.

³This column assumes Cecil is at the highest tax bracket.

CORPORATE DONATIONS

Basic tax deduction rates

When the donor is a corporation, it receives a donation deduction, rather than a credit. Unlike a credit, this deduction does not reduce the company's taxes payable directly. Instead, it reduces the amount of the corporation's income that is exposed to tax.

Because a corporation receives only a deduction when making its donation, the tax savings will depend on the corporation's tax rate. In Alberta in 2025, Canadian-owned corporations⁴ will typically pay tax at one of three rates:

- The **small business rate** of 11%, which generally applies to the first \$500,000 of active business profits earned by a corporate group
- The **general corporate rate** of 23%, which generally applies to business income that does not qualify for the small business rate
- The **investment income rate** of 46.67%, which generally applies to passive income like interest, rental income, and the taxable portion of capital gains

As with individuals, a corporation may only claim donations on up to 75% of its net income for the year (with some exceptions). Any donations above that amount may be carried forward and claimed in any of the following five years.

Donations of publicly listed securities

Corporations can also benefit from the special rules that apply to in-kind donations of certain types of investments. If a corporation donates property that qualifies for this special treatment, the corporation would normally be entitled to avoid tax on any accrued capital gains on that investment.

There is an additional benefit available when a corporation makes this type of in-kind donation, however. Corporations have a special tax account known as the "capital dividend account." When a corporation has a positive balance in that account, it is generally entitled to pay capital dividends to its shareholders. This is particularly valuable, since capital dividends are tax-free when paid to a Canadian resident.

When a corporation makes an in-kind donation of an investment that qualifies for this special treatment, the full amount of the capital gain is added to the corporation's capital dividend account. In many cases, this would enable the company to distribute the amount of that gain to its shareholders on a tax-free basis. That is, not only is the gain tax-free to the company, it can usually be distributed to the shareholders tax-free, as well. This can reduce the after-tax cost of a donation by an even greater amount than expected.



You should seek advice from your tax advisor before making a donation to determine whether it is in your interest to consider an in-kind donation of a corporate investment.

⁴A "Canadian-controlled private corporation" within the meaning of subsection 125(7) of the Income Tax Act (Canada).

The shareholder's perspective

It is tricky to assess the out-of-pocket cost of making a corporate donation, because the true cost will depend on whether it is viewed from the perspective of the corporation or from the perspective of the shareholders. From the corporation's perspective, it seems rather simple. If the corporation donates \$10,000 and receives a deduction against its small business income of 11%, the corporation's out-of-pocket cost is around \$8,900.

From the shareholders' perspectives, the cost is better viewed in terms of personal cash, rather than corporate cash. When the company donates \$10,000 and receives \$1,100 of tax savings, the shareholders have effectively given up the opportunity to receive \$8,900 of dividends.

\$8,900 of dividends does not represent \$8,900 of true after-tax value to the shareholders, though. Had the shareholders received that dividend, it would normally trigger a personal tax bill. Non-eligible dividends are taxed at up to 42.31% (in Alberta at 2025 rates). As a result, when a shareholder gives up the opportunity to receive \$8,900 of dividends, their lost opportunity after tax may be as low as \$5,134 (that is, \$8,900 of dividends less \$3,766 of dividend tax).

These calculations quickly become challenging when considering other corporate scenarios. The best strategy for your donations may depend on your corporation's tax pools, its access to in-kind donations, shareholder loan balances, and the benefit of deferring personal tax. For these reasons, it is especially important for your tax advisor to be included in designing an optimal donation strategy when a corporation is involved.

Case study: shareholder perspective on corporate donations of cash

Returning to Cecil's situation, he also has a company that carries on business in Alberta, which pays tax at the small business rate of 11%. The corporation has \$10,000 of idle cash that Cecil wants to donate to a local charity. Cecil's personal income is taxed at the highest marginal rate and, as a result, his tax advisor has confirmed he has access to the enhanced donation tax credit for personal donations.

Cecil wants to understand the difference between three choices, from the perspective of how it affects his personal after-tax wealth:

1. Make no donation and withdraw \$10,000 for personal spending.
2. Have the corporation donate \$10,000 of cash, then withdraw any corporate tax savings for personal use.
3. Have the corporation distribute \$10,000 to him and make the donation personally.

	No donation	Corporate donation	Withdraw and donate personally
Corporate donation		(\$10,000)	
Corporate tax rate		11%	
Corporate tax savings		\$1,100	
Dividend	\$10,000	\$1,100	\$10,000
Non-eligible dividend tax rate	42.31%	42.31%	42.31%
Personal dividend taxes	(\$4,231)	(\$465)	(\$4,231)
Personal donation			(\$10,000)
Charitable tax credit rate			54%
Personal tax savings			\$5,400
After-tax personal cash	\$5,769	\$635	\$1,169
True cost of donation		(\$5,134)	(\$4,600)

When put in terms of personal cash, Cecil is slightly better off by withdrawing the funds from his corporation and donating them personally, rather than donating directly within the corporation. This will not be true in every scenario, however. If the details of this example were different, there may have been a different conclusion. Only your own tax advisor can confirm the best method of donating in your circumstances.

Case study: shareholder perspective on corporate donations of securities

Cecil's company also owns units of a mutual fund, which his tax advisor has confirmed qualify for special treatment when donated in-kind. The mutual fund is currently worth \$10,000 and his company originally acquired it for \$6,000 several years ago. The company also has \$4,000 of idle cash available to be withdrawn.

Cecil wants to understand the difference between three choices, from the perspective of how it affects his personal after-tax wealth:

1. Make no donation. Have the corporation sell the mutual fund and distribute the after-tax proceeds and idle cash to him personally.
2. Have the corporation donate the \$10,000 mutual fund unit in-kind, then distribute the tax savings and idle cash to him personally.
3. Have the corporation transfer the mutual fund and idle cash to him personally and make a personal donation of \$10,000.

	No donation	Corporate donation	Withdraw and donate personally
Corporate donation:			
Donation value		(\$10,000)	
Corporate tax rate		11%	
Tax savings		\$1,100	
Capital gain:			
Gain on investment	\$4,000	\$4,000	\$4,000
Tax rate on gain (after refund)	8%	0%	8%
Corporate tax	(\$320)	Nil	(\$320)
Addition to CDA	\$2,000	\$4,000	\$2,000
Distribution to shareholder:			
Available to distribute	\$13,680	\$5,100	\$13,680
Tax-free capital dividend	\$2,000	\$4,000	\$2,000
Non-eligible dividend	\$11,680	\$1,100	\$11,680
Dividend tax rate	42.31%	42.31%	42.31%
Personal tax	(\$4,942)	(\$465)	(\$4,942)

	No donation	Corporate in-kind donation	Withdraw and donate personally
Personal donation:			
Donation value			(\$10,000)
Tax credit rate			54%
Tax savings			\$5,400
After-tax cash	\$8,738	\$4,635	\$4,138
True cost of donation		(\$4,103)	(\$4,600)

In Cecil's situation, having the corporation donate appreciated securities in-kind directly to charity reduces the true cost of the donation by almost \$500, when compared to Cecil withdrawing the cash to donate personally. Once again, this will not be true in every scenario. Had the facts been slightly different, a different strategy might have been preferred. Calculating these tax benefits involves several moving parts, so it's best to receive tailored advice from your tax advisor.

CONCLUSION

The above examples are intended to illustrate some of the concepts for making donations, but these are not comprehensive. There are several considerations that are not discussed above and which may be important in your circumstances.

One important discussion to have with your tax advisor is whether you will be able to fully utilize your donation tax credits. Donation tax credits are not refundable. They can only be claimed if you have enough taxes payable in the year. The federal credit can only be claimed against federal taxes, while the provincial credit can only be claimed against provincial taxes. If you make particularly large donations in a given year, you may have more provincial tax credits than you can actually claim. You should confirm with your tax advisor whether your credits will be fully usable (either in the current year or a future year) as part of your strategic decisions.

In some cases, personal donations can also result in an unexpected tax bill under the "alternative minimum tax" system. We did not discuss this system in this article, but we encourage you to ask your tax advisor about alternative minimum tax if you intend to make particularly large donations in a single year.

There is a range of strategic decisions that can help to reduce the after-tax cost of donating to charity. It is valuable to discuss these with your tax advisor in advance of making your donation to minimize the cost of making that donation and help your donations stretch farther.



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