TD Wealth

Corporations and Charitable Giving:

What Strategies Work for You?

Stock option holders and private corporation shareholders have unique ways to engage in charitable giving that may also provide them with tax benefits tailored to this type of giving.

Stock Options and Charitable Giving

If you are a charitably minded executive with stock options to exercise, you may be able to fulfill your philanthropic goals upon exercising your stock options, and receive favourable tax treatment.

Let's start at the beginning. A stock option represents a right to acquire a number of shares, as set out in your company's stock option plan after the "vesting period" is over, and before the specified expiry date. The vesting period will be specified by your company. It may be connected to employment incentives. For example, you might receive options that will vest in tranches over a period of years. Or they may vest in relation to achieving performance targets.

Simply receiving a stock option as an employee is generally not considered incurring income, and therefore you don't have to pay taxes at that time. Tax liability generally doesn't enter the picture until the option is exercised or otherwise sold, assigned or transferred by the employee. Then you will be deemed to have received a taxable employment benefit. When the fair market value of a share is higher than the exercise price, the option is "in the money". Any difference between the exercise price to purchase the shares (plus the amount paid up front to acquire the option, if any), and the shares' "fair market value" at the time the option is exercised is taxable. However, unlike other taxable employment benefits, a deduction is generally available for 50% of the value of the benefit such that only 50% of the income is taxable.

If the shares are being donated to a registered Canadian charity and are publicly traded, the tax on the employment benefit may be eliminated to nil. To receive this favourable tax treatment, the shares, or proceeds of the sale of the shares, must be donated within 30 days of the date that you exercised the option, and within the same calendar year. This strategy was made part of the *Income Tax Act* to encourage philanthropy among executives compensated with stock options. Instead of having to find cash to donate, they can donate publicly-traded securities that have appreciated in value, and enjoy the benefit of not paying any capital gain tax on any increase in the value of the securities.

Let's look at the following example:

	Donate publicly traded securities acquired through an employee stock option plan
Market value	$100,000
Exercise price	$20,000
Employment benefit	$80,000
Employment benefit deduction (50%)	$40,000
Additional employment benefit deduction (50%)	$40,000
Tax savings on the additional employment benefit deduction [$40,000 x 50% (estimated)]	$20,000
Tax credits on donations [($100,000 x 50% (estimated)]	$50,000
Total tax savings and tax credits	$70,000

Can't afford to exercise your stock option and give? Your company's plan may help

Another challenge related to exercising a stock option may be that you simply don't have the cash to pay the exercise price. This issue is not uncommon, so many stock option plans offer "cashless stock options." This type of option allows you to exercise your option and take advantage of the increased value of the share. Your company will sell the shares and you will pay the exercise price from the proceeds. After that, you can fulfill your intention to donate all or a portion of the proceeds to charity.

Getting a break on withholding tax

Companies have to withhold income tax when an option is exercised. However, if you intend to donate the shares or proceeds to a registered charity within the required time-frame, your stock option exercise may be exempted from withholding tax. But you are required to notify your employer in writing of your intent to donate the shares or proceeds – prior to exercising the option, and request that they do not withhold tax. **Please note that you are responsible for ensuring that your taxes are remitted on time in compliance with the Canada Revenue Agency (CRA), therefore it may be best for you to consult your tax advisor when dealing with this situation.**

Corporate strategies for paying it forward

If you are an owner, and therefore shareholder, of a private corporation, a donation to a charity by the corporation is likely to qualify as a business expense.

While the corporation will get a charitable receipt, it will be treated by the CRA as a tax deduction. Keep in mind corporate donations resulting in deductions will reduce the corporation's net taxable income, while individual donations result in tax credits that can reduce your individual tax payable. To determine whether it would be better for you to make a donation through your corporation or personally, please consult with your tax advisor.

Meanwhile, like an individual, a corporation can donate publicly traded securities it holds to a registered charity and obtain the tax benefit. It can make the donation and entirely eliminate the tax on the deemed capital gain. The entire amount of the capital gain will be credited to the corporation's capital dividend account, and balances that accumulate in a corporation's capital dividend account may be paid out to your corporation's shareholders as a tax-free capital dividend.

For more information on how this strategy may benefit your private corporation and shareholders please consult with your TD Advisor and tax professional.

Now you can speak to your TD advisor and consult your tax professional to:

- Exercise "in the money" stock options and donate some or all of the sale proceeds to a registered charity
- Request that your employer does not withhold taxes when you plan to exercise your stock options and make a donation
- Take advantage of the significant tax benefits of donating publicly traded securities held by your private corporation

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