

# Minimizing the tax impact of corporate passive income by giving to charity

Sal and Vicki own a small business, and they're concerned about the impact of new federal tax rules for small business. Most of their wealth is tied up in publicly traded securities, held within their corporation. Under the new rules, too much passive income means they could lose the small business tax rates they enjoyed in the past. This could significantly increase taxes on their operating earnings.

## Using gifts of publicly traded securities

Sal and Vicki can donate some of their corporately owned publicly traded securities to a **charity in-kind** (without selling first). Their company receives a charitable tax receipt and a **complete waiver of capital gains tax** on the securities.

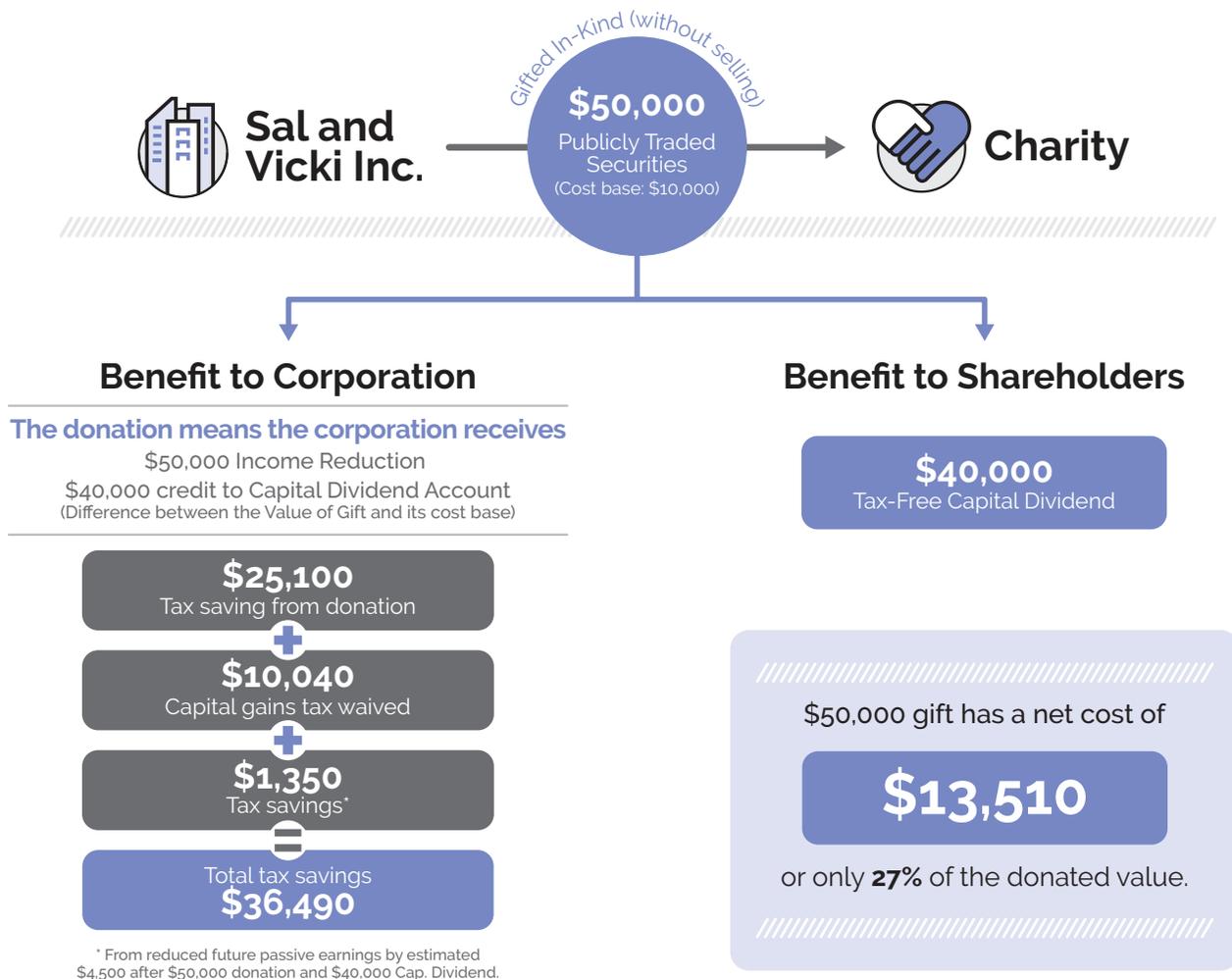
What's more, the capital gain on the donated securities generates a credit to the company's Capital Dividend Account (CDA). Sal and Vicki can take this money out of the company the next fiscal year via a capital dividend, tax-free.

The combination of donation deduction, capital gains waiver and capital dividend credit can help them lower the impact of new federal tax rules for small business.



## How it works

Sal and Vicki's corporation has a **\$2 million portfolio**, which generates **\$100,000** a year in passive income. This could reduce their small business tax limit from \$500,000 of income to \$250,000, resulting in **\$12,500 more federal tax** (assuming \$500,000 in active income).



## Getting the money into Sal and Vicki's hands

By donating in kind, the company can issue a \$40,000 tax-free capital dividend the next fiscal year. This is twice as much as if the company sold the shares and retained the proceeds. In total, \$90,000 has been removed from the company (\$50,000 donation and \$40,000 capital dividend), reducing the long-term impact of passive investments for future years, all while supporting their favourite charity with a significant gift that only cost them 27% of its starting value.

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