

Donating Securities

As a result of the 2006 federal budget, individuals and corporations who donate securities or mutual funds do not have to include any portion of the resulting capital gain in their income. Similarly, if you exercise an employee stock option and donate the shares (or mutual fund units), you do not need to include any amount of the resulting employee benefit in your income. To qualify you must meet the criteria for donations of publicly listed securities, and you must donate the stock option shares during the year and within 30 days of exercising the option.

Advantages of Donating Securities

- You become entitled to a charitable income tax deduction for the fair market value of the gifted securities at the end of the day on the date the securities are received in our brokerage account.
- Your standard capital gains tax rate on gifts of publicly listed securities is reduced to zero. This means that when you transfer publicly listed securities you will not pay any capital gains tax on the appreciated value of those shares.
- A gift of securities can be made for much less than the net cost of an equal gift of cash. By donating the securities you eliminate the capital gains tax that would ordinarily become due if you had sold the appreciated securities on the open market and donated the proceeds from the sale to charity.
- Your charitable deduction can be claimed against up to 75 per cent of your net income and any unused deductions can be carried forward throughout the next five years.
- Give securities that have experienced the greatest capital gain per share to get the greatest tax benefit.
- It is easy to do and it supports important work!

How does it work?

Normally, when you sell securities, tax must be paid on 50% of any capital gain (the increase in value, since you acquired the securities). However, when you donate the same securities you will not pay tax on the capital gain. On the contrary, you will receive a charitable gift tax receipt for the full amount of the donation. As a result, the combined benefit of paying no tax on the capital gain and the charitable tax receipt you receive on the entire amount provides excellent tax benefits when making your charitable gift.

When making a gift of securities, decide which securities or mutual fund holdings you wish to donate. Then instruct your broker to transfer the shares electronically. You'll receive a tax receipt for the entire amount of the gift (closing price of the securities on the date they are received in the brokerage account) which you can then apply to your current taxes. Simply contact us in advance, and we will provide all the necessary information to your broker to facilitate a smooth and prompt transfer.

Shares vs. cash from sale of shares – which should you donate?

The following example shows how donating securities directly can produce higher net tax savings than selling the same securities and donating the proceeds.

Say you want to make a substantial donation and you have publicly traded securities that originally cost you \$10,000, but are now worth \$100,000. Assuming your income is taxed at the

top marginal rate of approximately 50%, the tax savings that result from donating the shares directly, contrasted with donating the proceeds from sold shares are as follows:

	Sell securities and donate gross proceeds	Donate securities
Value of donation (A)	\$100,000	\$100,000
Cost base (B)	\$10,000	\$10,000
Capital gain (A-B=C)	\$90,000	\$90,000
Taxable capital gain (C×50%=E)	\$45,000	0
Tax payable on capital gain (E×50%=F)	(\$22,500)	\$0
Capital gains tax savings	0	\$22,500
Donation tax credit (A×50%=F)	\$50,000	\$50,000
Capital gains tax savings and tax credits	\$50,000	\$72,500

This example is for information purposes only, and demonstrates the tax advantages of donating the securities directly. Please consult your financial and/or legal advisor to plan your donation that best meets your personal situation.