



Donating Securities Instead of Cash

The May 2, 2006 Canadian Federal budget made it more attractive to make donations to charities. Donations of publicly listed securities to public charities (such as CFIS, CILF or The CFS Endowment Society) will be exempted from capital gains taxation.

Donation of Securities

Prior to the budget, the capital gain inclusion rate on the donation of listed securities was 25% compared to the normal capital gain inclusion rate of 50%. Now, an individual who donates an appreciated listed security to an eligible charity will not only receive a donation receipt equal to the fair market value of the security, but will not need to include any capital gains in income.

Donation of Stock Options

This was also good news for individuals exercising stock options. If you exercise an employee stock option and donate the shares on or after May 2, 2006, you do not need to include any amount of the resulting employee benefit in your income. To qualify for this treatment, the share must qualify for the employee stock option deduction and meet the criteria for donations of publicly listed securities. You must donate the stock options shares during the calendar year and within 30 days of exercising the option.

EXAMPLES

Let's assume you wish to make a gift to your favourite charity of \$5,000. You are also going to dispose of the shares of a publicly traded company that you've held for several years. The shares, currently worth \$5,000, were purchased by you several years ago for \$1,000 and therefore have an accrued capital gain of \$4,000.

Let's compare the cost of the donation to you, assuming first, that you sell the shares and donate \$5,000 in cash and second, that you donate the shares directly to the charity.

Under both scenarios, you will have a disposition of your shares for tax purposes at their fair market value of \$5,000. Assuming your marginal tax rate is 39% (this is the top tax rate for an Alberta resident in 2006), you would have to pay the following tax:

Tax on Capital Gain		
	Sell Shares / Donate Cash	Donate Shares to Charity
Proceeds of Disposition	\$5,000	\$5,000
Cost of Shares	<u>(1,000)</u>	<u>(1,000)</u>
Capital Gain	\$4,000	\$4,000
Taxable Portion of Gain @ 50%	\$2,000	
@ 0%		\$0
Tax @ 39%	\$780	\$0

The difference in the amount of tax you must pay is directly the result of the difference in calculating the taxable portion of your gain!

Under both scenarios, you will still get a tax break based on the value of your donation. Assuming the individual pays tax at the top rate in Alberta, the tax savings from the gift will also be calculated at 39%. Therefore, the tax break will be 39% of \$5,000 or \$1,950, and your \$5,000 donation will cost you the following:

Cost of Donation to You		
	Sell Shares / Donate Cash	Donate Shares to Charity
Amount of Donation	\$5,000	\$5,000
Add: Tax on Capital Gain	780	0
Less: Value of Donation Tax Credit	(1,950)	(1,950)
Cost of Donation to You	\$3,830	\$3,050

By gifting your shares directly to your favourite charity rather than selling the shares, you will have saved \$780 in tax on your capital gain. Generally, if you are going to make a donation and you are also selling securities, you should consider donating the securities to the charity instead.

The information provided is of a general nature and is not intended to address the circumstances of any particular individual or entity. Please consult your accountant or planner to ensure this strategy is appropriate for you.