CIBC Wood Gundy

Donating Securities To Charity

FINANCIAL AND ESTATE PLANNING

If you're looking for a way to reduce your tax bill and make a meaningful donation to your favourite charity or charities, consider a special gifting opportunity that is available to Canadians.

Let's say you own 1,000 shares of a stock you purchased at $15.00 per share 10 years ago. The share price is now $21.00, which means your holding is worth $21,000. You sell the shares, receive $21,000 (less commission) and then donate the whole amount to your favourite charity.

Very generous of you, but also unwise! In Canada, it is more tax-efficient to donate your publicly traded securities in certificate form or "in-kind" directly to the charitable organization of your choice. The government encourages the giving of appreciated investments by potentially eliminating the taxes you must pay on such donations. Under normal circumstances, when you sell a publicly traded security, you are subject to income tax on 50% of the increase in value or capital gain. However, when you donate an appreciated investment to a registered charity, you don't have to pay tax on any of the gain – the inclusion rate in income is 0%.

WHAT CRA CONSIDERS A PUBLICLY TRADED SECURITY

- shares, debt obligations or rights listed on designated stock exchanges in Canada and internationally
- shares of capital stock of a mutual fund corporation
- units of a mutual fund trust
- interests in related segregated fund trusts (an investment fund relating to an insurance policy)
- prescribed debt obligations
- partnership interests that are exchangeable for publicly traded securities (certain circumstances only)

Example

Consider an investor in the 46% tax bracket (assuming a provincial tax rate of 17%) who has already donated $200 this year to her favourite charity (remember the first $200 of charitable donations attracts tax credits at a lower rate). Assume she donates $10,000, which is the current value of the shares with an adjusted cost base of $4,000.

	Sell Shares / Donate Cash	Donate Shares To Charity
Amount of donation	**$10,000**	**$10,000**
Adjusted cost base of shares	**($4,000)**	**($4,000)**
Capital gain	**$6,000**	**$6,000**
Taxable portion of gain @ 50% inclusion	**$3,000**	**N/A**
Tax on capital gain at 46%	**($1,380)**	**$0**
Tax benefit of gift at 46%	**$4,600**	**$4,600**

Source: CIBC, December 2008

You can see from this example that the same $10,000 donation yields an extra $1,380 in tax benefit to the investor when she donates her shares directly to the charity.

Considerations

1. Donations must be made to a registered Canadian charity or other qualified donee, which includes public or private foundations, registered Canadian amateur athletic associations, registered national arts services organizations, a Canadian government division (federal, provincial, territorial or municipal), the United Nations (UN) or agencies of the UN, such as UNICEF, certain universities outside of Canada, certain charitable organizations outside of Canada and tax-exempt Canadian housing corporations providing low-cost housing for seniors. Check first with the charity you have chosen to make sure it accepts donations of publicly traded securities.
2. Donation credits can be claimed in the year they were made or carried forward for up to five years to suit your personal tax planning needs and two or more years of charitable donations can be combined into one year.
3. If you have a spouse, consider whether greater tax savings will arise by combining charitable donations and claiming them on the higher-income spouse's tax return.
4. Tax credits can be claimed for donations of up to 75% of net income.
5. Individuals and corporations who donate securities listed on prescribed stock exchanges, mutual funds and segregated funds of life insurance companies to charities do not have to include any portion of the resulting capital gains in their income. Similar rules apply to securities donated to private foundations on or after March 19, 2007. It is worth noting that private foundations are subject to some restrictions on the amount of stock they can hold in a corporation.
6. For estate planning purposes, you can declare in your will that you want your publicly traded securities to be donated to an eligible charity. Credits from these donations can reduce the amount of tax payable for the year of death and the year before death. For those years, donations of up to 100% of net income can be claimed.
7. If you have a choice of appreciated non-registered securities to donate, it may be tax advantageous to consider donating the one with the highest accrued capital gain.
8. If the donation results in a large capital gain, alternative minimum tax may apply. Consult a taxation professional to determine the most tax-efficient means of donating.
9. Selling securities at a loss will also provide additional deductions against capital gains.

If you're planning to make a donation to a registered Canadian charity and you hold publicly traded securities outside of a registered account that have appreciated in value, consider donating the securities directly to charity to reduce your tax. Remember to speak with your advisor to help determine if the sale of securities is in keeping with your investment objectives, asset allocation model and overall financial plan.

Note: A registered charity is an organization, corporation or trust that has been registered as a charity by the Minister of National Revenue for the purposes of the Income Tax Act. It must be either created or established in Canada and be resident in Canada.

For more information on the tax rules associated with the charitable donations of securities, please visit the Canada Revenue Agency (CRA) website at **www.cra-arc.gc.ca/donors.**

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