

GIFTS OF LISTED SECURITIES

Making charitable gifts with listed securities is often better than writing cheques. This is because all of the taxable gain in a qualifying gift of securities is now entirely *exempt* from taxation.¹

If you sell listed securities, 50 percent of the gain is taxable. However, when you contribute qualifying securities to (*Full Name of Charity*) or to any charity (including public and private foundations²), none of the gain is taxable. For example, if you donate securities that originally cost you \$4,000 and are now worth \$10,000, you recognize \$6,000 of capital gain but pay no tax on the gain.

Your donation receipt will be issued for the full fair market value (FMV) of the securities on the date they are transferred to the charity. In computing the amount of your charitable tax credit, you get the benefit of all of the appreciation that can now be used to reduce your taxable income payable on other income.

Q: How do I make a gift of listed securities?
A: To qualify for the exemption of tax on capital gains, you must arrange for an “in-kind” transfer of the securities to the charity. This is most commonly done with the help of your financial advisor or your broker to arrange the transfer of assets from your investment account to the charity’s brokerage account *electronically*. Once the ownership has transferred to the charity, a donation receipt can be prepared.

Q: What kinds of securities qualify for this exemption?
A: Publicly listed securities (stocks, bonds, mutual fund units, treasury bills, warrants and futures) traded on approved stock exchanges qualify for the capital gains exemption. Approved stock exchanges include not only those in Canada, but also those in certain foreign countries. For example, shares traded on the New York Stock Exchange and the NASDAQ would all qualify. However, privately-owned shares would not.

Q: When is the best time to make a gift of listed securities?
A: There are two common scenarios that might affect the timing considerations for these types of gifts. The following examples will help illustrate each situation:

Scenario 1: When it’s time to sell

You may own securities you don’t think will perform in the future as well as they have in the past, or maybe you expect a correction in the entire market. Nevertheless, you hesitate to sell because you don’t want to pay tax on the gain. If you have been planning to make

¹ As introduced in the May 2, 2006 Federal Budget.

² As introduced in the March 19, 2007 Federal Budget.

a charitable gift, these securities could be the ideal asset to use for that gift. The net cost of the gift could be relatively low. Consider this example.

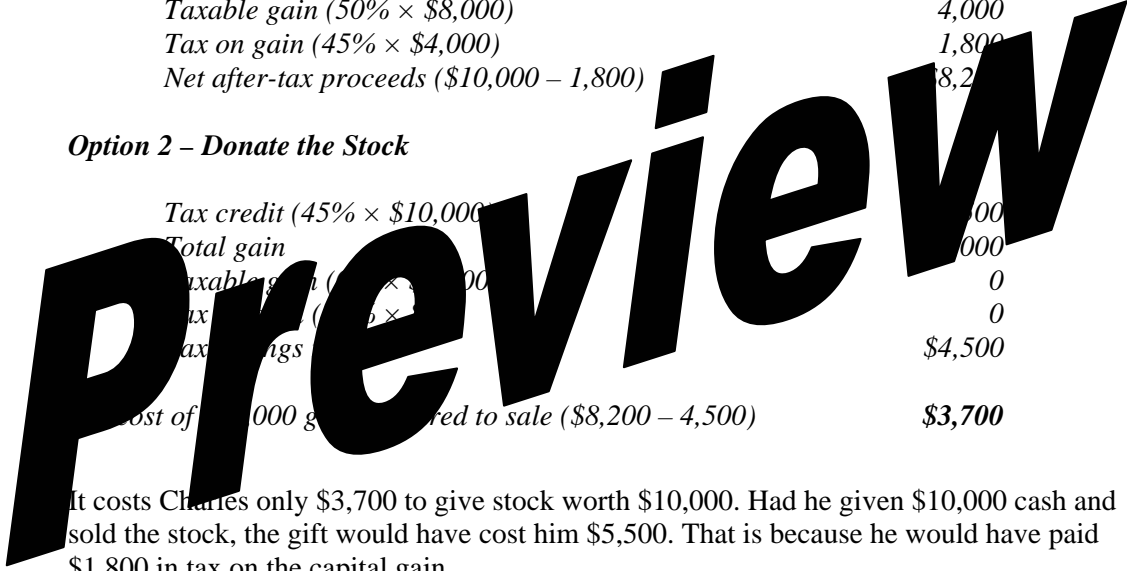
Example: Charles M. thinks it is time to sell some stock now valued at \$10,000 with an adjusted cost base of only \$2,000. He has also been thinking of making a \$10,000 gift to **(Full Name of Charity)**. His combined federal and provincial tax rate and charitable tax credit are both 45%. What is the real cost of giving the stock instead of selling it?

Option 1 – Sell the stock

Total gain	\$8,000
Taxable gain (50% × \$8,000)	4,000
Tax on gain (45% × \$4,000)	1,800
Net after-tax proceeds (\$10,000 – 1,800)	\$8,200

Option 2 – Donate the Stock

Tax credit (45% × \$10,000)	4,500
Total gain	8,000
Taxable gain (50% × \$8,000)	4,000
Tax on gain (45% × \$4,000)	1,800
Net after-tax proceeds (\$8,000 – 1,800)	\$6,200
Cost of \$10,000 gift if sold to sale (\$8,200 – 4,500)	\$3,700



It costs Charles only \$3,700 to give stock worth \$10,000. Had he given \$10,000 cash and sold the stock, the gift would have cost him \$5,500. That is because he would have paid \$1,800 in tax on the capital gain.

Scenario 2: When you want to hold

Unlike Charles in the previous example, you may have a stock you think has a great future. While you like the idea of exempting the capital gain from taxation, you don't want to lose out on likely future appreciation. Thus, you are more inclined to hold the stock and make this year's charitable gift with cash.

If you have such a stock, you might consider giving it and using the cash, which you otherwise would have given, to repurchase the stock on the market. Thereby, you would get a stepped-up cost base in the stock, and when you sell it in the future you will be taxed only on the gain accruing after the repurchase.

Q: Can I make give listed securities as a Bequest in my will?

A: Yes! The full exemption from tax on capital gain applies to charitable bequests as well as to lifetime gifts. Thus, if you intend to make bequests to charity as well as to family members, it could be advantageous to fund your charitable bequest with appreciated, listed securities and your family bequests with other assets. You can do this either by making a specific bequest of certain securities, or by empowering your executor to select

the assets with which to fund the charitable bequest. The executor can then select the listed securities with the greatest capital gain, thereby maximizing tax savings.

Suppose, for example, that your estate consists of your principal residence, net of \$50,000, plus \$100,000 of listed stock with an adjusted cost base of \$50,000 and that you wish to leave \$100,000 to (*Charity*) and the balance to your children. If the stock is sold, the children, \$30,000 of the gain (50% × \$60,000) will be taxed, but if the stock is given to *Charity*, the full \$60,000 gain will be excluded from taxation. Before the stock is given to *Charity*, your stock is given to your children, your spouse or principal residence, none of which is taxable.

Q: How do I report the sale of listed securities for income tax purposes?

A: When you make a charitable gift of listed securities, you need to complete Canada Revenue Agency (CRA) Form T1170 and return it with your other income tax forms. By completing this form you are able to exclude all of the capital gain in charitable gifts of qualifying securities, rather than the 50 percent that would be included if the assets were sold.

Contribution Limits

For gifts to registered charities such as (*Full Name of Charity*), the maximum amount of charitable contributions made prior to the year of death that can be claimed for credit in any one year is 75 percent of net income plus 25 percent of the taxable gain arising from the gift. Unused contributions can be carried forward and used for up to five years beyond the year of the gift. The contribution limit for gifts made in the year of death (including bequests) is 100 percent of net income reported on the terminal income tax return, with a one-year carryback.

The information in this brochure does not constitute legal or financial advice and should not be relied upon as a substitute for professional advice. You should always seek professional legal, estate planning, and financial advice before deciding on a course of action.