

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 other than a private foundation, 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 calculating the amount of your charitable tax credit, you get the benefit of all of the appreciation that can now be applied to reduce taxes payable on other income.

Planning Opportunities with Listed Securities

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 may even 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 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

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

<i>Tax on gain (45% × \$4,000)</i>	1,800
<i>Net after-tax proceeds (\$10,000 – 1,800)</i>	\$8,200

Option 2 – Donate the Stock

<i>Tax credit (45% × \$10,000)</i>	\$4,500
<i>Total gain</i>	8,000
<i>Taxable gain (0% × \$8,000)</i>	0
<i>Tax on gain (45% × \$0)</i>	0
<i>Tax savings realized</i>	\$4,500

Net cost of \$10,000 gift compared 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. This is because he would have paid \$1,800 in tax on the capital gain.

2. When you want to hold

Unlike Charles in the previous example, you may have stock you think has a great future. While you like the idea of exempting part of the 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.

3. Bequests of Securities

The full exemption from taxable 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 for the charitable bequest.

Suppose, for example, that your estate consists of your principal residence, plus cash, plus \$100,000 of listed stock with an adjusted cost base of \$40,000, and that you want to leave \$100,000 to charity and the balance to your children. If the stock goes to the children, \$30,000 of the gain (50% × \$60,000) will be taxed, but if it goes to charity, the full \$60,000 gain will be *exempt* from taxation. Better, then, to give the charity your stock and the children your cash and principal residence, neither of which is taxable.

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.

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