

## Tax & Estate

### Donation of Publicly-Listed Securities and Mutual Funds to Public Charities.

So you have made a great gain on some stock and you would like to help the ministry of **BGC Canada** or the ministry of your **local church**.

**Great News!** The federal government announced new rules applying to donations of eligible securities made on or after May 2, 2006.

#### How it Works

If you donate your stock – not cash – to charity you are entitled to enhanced tax relief.

*With the new rules, none of the capital gain of the eligible stock is included in your income, unlike before.*

The charity receives the donation of stock, cashes it in, pays “**zero tax**” and has immediate use of the donation.

In addition to not having to pay tax on the gain, the donation provides you with a tax credit equal to the highest marginal tax rate in your province.

For example, assume a donor makes a \$100,000 donation of publicly-traded securities where the original cost was \$20,000 for an \$80,000 capital gain.



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The charity receives the full amount of \$100,000, can put it to work immediately, and the donor still makes a healthy return (\$21,750 in Alberta) on his initial investment of \$20,000.

See the following three examples:

| Example #1<br>AB Tax Rate<br>39%   | Cash<br>Donation<br>(A)<br>(Cash Out<br>Then<br>Donate) | Donating<br>Securities<br>Pre-<br>Budget<br>(B) | Donating<br>Securities<br>Post-<br>Budget<br>(C) |
|--|---|---|--|
| Fair Market Value<br>of Donation   | \$100,000   | \$100,000                                       | \$100,000  |
| Assumed Adjusted<br>Cost Base  | (\$20,000)  | (\$20,000)                                      | (\$20,000)                                       |
| Capital Gain   | \$80,000  | \$80,000  | \$80,000   |
| Taxable Gain (50%<br>vs. 25% vs. 0%)                                     | \$40,000  | \$20,000  | \$0  |
| Tax on Capital Gain<br>(at 39%) (A)                                      | (\$15,600)  | (\$7,800)                                       | \$0  |
| Tax Benefit of Gift<br>(at *41.75%) (B)                                  | \$41,750  | \$41,750  | \$41,750   |
| Net Tax Benefit<br>(A+B)   | \$26,150  | \$33,950  | \$41,750   |
| <b>Tax Savings From<br/>Donating<br/>Securities Rather<br/>Than Cash</b> |   | <b>\$7,800</b>                                  | <b>\$15,600</b>                                  |

\*AB's tax credit is 41.75% for personal donations – higher than the top marginal rate of 39%



# Donation of Securities

| Example #2<br>BC Tax Rate<br>43.7%                           | Cash<br>Donation<br>(A)<br>(Cash Out<br>Then<br>Donate) | Donating<br>Securities<br>Pre-<br>Budget<br>(B) | Donating<br>Securities<br>Post-<br>Budget<br>(C) |
|--|---|---|--|
| Fair Market Value of Donation                                | \$100,000   | \$100,000                                       | \$100,000  |
| Assumed Adjusted Cost Base                                   | (\$20,000)  | (\$20,000)                                      | (\$20,000)                                       |
| Capital Gain   | \$80,000  | \$80,000  | \$80,000   |
| Taxable Gain (50% vs. 25% vs. 0%)                            | \$40,000  | \$20,000  | \$0  |
| Tax on Capital Gain (at 43.7%) (A)                           | (\$17,480)  | (\$8,740)                                       | \$0  |
| Tax Benefit of Gift (at *43.7%) (B)                          | \$43,700  | \$43,700  | \$43,700   |
| Net Tax Benefit (A+B)  | \$26,220  | \$34,960  | \$43,700   |
| <b>Tax Savings From Donating Securities Rather Than Cash</b> |   | <b>\$8,740</b>                                  | <b>\$17,480</b>                                  |

| Example #3<br>Ontario Tax<br>Rate 46.4%                      | Cash<br>Donation<br>(A)<br>(Cash Out<br>Then<br>Donate) | Donating<br>Securities<br>Pre-<br>Budget<br>(B) | Donating<br>Securities<br>Post-<br>Budget<br>(C) |
|--|---|---|--|
| Fair Market Value of Donation                                | \$100,000   | \$100,000                                       | \$100,000  |
| Assumed Adjusted Cost Base                                   | (\$20,000)  | (\$20,000)                                      | (\$20,000)                                       |
| Capital Gain   | \$80,000  | \$80,000  | \$80,000   |
| Taxable Gain (50% vs. 25% vs. 0%)                            | \$40,000  | \$20,000  | \$0  |
| Tax on Capital Gain (at 43.7%) (A)                           | (\$18,560)  | (\$9,280)                                       | \$0  |
| Tax Benefit of Gift (at *43.7%) (B)                          | \$46,400  | \$46,400  | \$46,400   |
| Net Tax Benefit (A+B)  | \$27,840  | \$34,960  | \$46,400   |
| <b>Tax Savings From Donating Securities Rather Than Cash</b> |   | <b>\$9,280</b>                                  | <b>\$18,560</b>                                  |

## If you are a Business Owner

If you are an owner-manager you may be interested in donating through your corporation.

Business owners can benefit from their corporation's "capital dividend account".

When public securities are donated to a charity, the *tax free portion* of the capital gain resulting from the donation, which would now be **100% (previously 75% and 50%)**, would be added to the capital dividend account and can be removed tax

free by the shareholders *using other corporate assets and future cash flow.*

In the above examples, pre 2006 budget, \$60,000 would have been added to the capital dividend account. The new budget increases the capital dividend account credit to \$80,000.

The charity receives the full amount of \$100,000, can put it to work immediately, the donor still makes a healthy return on his initial investment of \$20,000, **and** can remove up to \$80,000 tax free from the corporation, as cash becomes available.