

Wealth preservation update

July 2015

Charitable giving: Donation of public company shares

Have you ever considered donating publicly-traded securities—such as stocks and bonds—to a charity? This is a smart and tax-effective alternative to the donation of cash. But how you structure your charitable donations can be as important as the amounts you give—both for the charity and for you as the donor.

The rules

The disposition of a share results in a capital gain to the extent the fair market value of the share at the time of disposition exceeds its original purchase price. However, there is an exception to this rule where eligible property is donated to a qualified donee such as a registered charity. Eligible property includes securities, such as shares and bonds listed on a prescribed stock exchange, as well as mutual fund units. For such donations, the taxable portion of the gain is reduced to nil so that the disposition of the security to the charity is fully exempt from capital gains tax. This tax relief also extends to qualifying donations made to private foundations.

To receive this favourable tax treatment, you must donate the security directly to the charitable organization. You can't sell the security in the open market and donate the cash. If you do, you will be subject to tax on any resulting capital gain. By donating the shares directly, the charity benefits by receiving the full value of the shares. At the same time,

you benefit by paying no tax on the disposition and receiving a charitable donation receipt for the fair market value of the shares at the time of the donation. For anyone with charitable intent, this can result in a significant tax benefit. For 2015, the federal credit is 15 percent on the first \$200 of donations claimed in the year and 29 percent on the amount in excess of \$200. After factoring in provincial tax savings, donations in excess of \$200 will save you anywhere from 40.2 percent to 50 percent, depending on your province of residence.

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Example

An example of the tax benefit is illustrated in the table below (assuming the donor is taxed at a top marginal rate of 50 percent and a donation receives a combined federal and provincial tax credit of 50 percent):

	Sale of securities and cash donation	Donation of securities
Value of shares/donation (A)	\$5,000	\$5,000
Cost base of shares (B)	\$1,000	\$1,000
Capital gain ((A - B) = C)	\$4,000	\$4,000
Capital gain inclusion rate (D)	50%	0%
Taxable capital gain ((C x D) = E)	\$2,000	\$ nil
Tax on taxable capital gain (E x 50%)	\$1,000	\$ nil
Donation tax credit (A x 50%)	\$2,500	\$2,500
Net tax savings (tax less donation credit (F))	\$1,500	\$2,500
Net after-tax cost of donation (A - F)	\$3,500	\$2,500

Please contact your Grant Thornton LLP advisor to explore these and other charitable giving alternatives available to your clients.