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Charitable Gifts — Consider Donating Securities Instead of Cash

Canada's tax incentives for charitable donations are designed to make it easier for you to support your favourite charities. And a recent change in the May 2, 2006 federal budget has further improved the tax benefits for donating shares and certain other assets. How you structure your charitable donations can be as important as the amounts you give, both to the charity and to the donation's after-tax cost to you.

Background

Both during your lifetime and on your death, you can donate property to a charity as an alternative to money. Such donations are called "gifts in kind" and can include property such as shares, artwork and real estate. Gifts in kind can also include more esoteric gifts like life insurance or a residual interest in real property.

Gifts in kind are normally valued at their fair market value. You use the same method to determine the value of the tax credit for a gift in kind as you do for a cash donation. Thus, the tax credit is generally worth about 46% of the value of the property, depending on your province. However, at the time of the donation, since you are deemed to have disposed of the property at its fair market value, you generally must recognize any capital gain or income that would result had you sold the property for that price.

Donating shares and mutual funds

As a result of the 2006 federal budget, individuals and corporations who donate securities listed on prescribed stock exchanges, mutual funds and segregated funds of life insurance companies to charities (other than private foundations) on or after May 2, 2006, do not have to include any portion of the resulting capital gain in their income. For such donations made before that date, the donor had to include 25% of the resulting gain.

Employee stock options

Similarly, if you exercise an employee stock option and donate the shares (or mutual fund units) on or after May 2, 2006, you do not need to include any amount of the resulting employee benefit in your income. To qualify for this treatment, the share must qualify for the employee stock option deduction and meet the criteria for donations of publicly listed securities. You must donate the stock option shares during the year and within 30 days of exercising the option.

Shares vs. cash from sale of shares — which should you donate?

The following example shows how donating securities directly can produce higher net tax savings than selling the same securities and donating the proceeds.

Say you want to make a \$2,000 donation to a favourite cause and you have publicly traded securities that originally cost you \$1,000, but are now worth \$2,000. Assuming your income is taxed at the top marginal rate of about 46% and you have already donated \$200 in the year, the tax savings that result from donating the shares directly and donating the proceeds from sold shares are as follows:

	Sell securities and donate gross proceeds	Donate securities
Value of donation (A)	\$2,000	\$2,000
Cost base (B)	\$1,000	\$1,000
Capital gain (A–B=C)	\$1,000	\$1,000
Capital gain inclusion rate (D)	50%	0
Taxable capital gain (C×D=E)	\$500	0
Tax on taxable capital gain (E×46%)	(\$230)	\$0
Donation tax credit (A×46%)	\$920	\$920
Net tax savings (S)	\$690	\$920
Net after-tax cost of donation (A–S)	\$1,310	\$1,080
By donating the securities, the donor's after-tax cost in this example is reduced by \$230.		

As you can see, you will come out ahead if you donate the securities directly.

We can help

Your KPMG adviser can help you structure your donations in ways that will maximize the financial benefits of your gift to the charity of your choice and the tax benefits to you or your corporation. We can also assist you in reviewing your will to minimize the tax burden on your estate and help ensure that your charitable bequests will be made as you intend. For details, contact your KPMG adviser or **Rosemary Macklem** of KPMG in Ottawa at **(613) 212-2821**.

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