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Capital Gains Eliminated on Gifts of Stock

Managing capital gains just became a lot simpler for investors who support charitable causes, thanks to the elimination of capital gains tax on gifts of securities to charity. If you have capital gains and are considering making a charitable gift that will have an impact on our community and the causes that you care about, please contact your financial advisor, your favourite Charity or Community Foundation.

The federal government introduced a great new incentive for Canadians to give to their favourite charity or charities in the budget. Effective May 2, 2006, the government eliminated capital gains tax on donations of publicly listed securities to charities.

How it works

Usually, one-half of a capital gain is subject to tax; with gifts of publicly-listed securities, that amount is eliminated when the gift is made to a charitable organization or a public foundation, such as a community foundation. Gifts to private foundations do not qualify for this elimination of the taxable portion of the capital gain.

Listed securities include:

- shares, rights, and debt obligations listed on most Canadian and certain foreign stock exchanges;
- prescribed debt obligations
- shares of the capital stock of a Canadian public mutual fund corporation
- units of widely held Canadian mutual fund trusts
- interests in related segregated fund trusts

The benefits of these gifts include:

- Immediate donation receipt for fair market value of security, determined for most securities from their closing price on the date of the gift
- Favourable reductions in capital gains taxation
- Charity pays no tax on sale
- Gifts can be given during donor's lifetime or after, through their estate.

Securities may be transferred to a charity in either of the following ways:

- The donor delivers endorsed certificates to the charity. The gift is complete the day the certificate is delivered. A donation receipt is based on the value of the security that day.
- The donor transfers the securities from his/her brokerage account to the charity's account. The gift is complete when the securities are actually transferred to the charity's account.

Incentive to Give

The income tax system supports the generosity of Canadians by providing a tax credit for donations to registered charities. This incentive is good public policy because each dollar of tax revenue that is lost through donations results in $2.25 that is put to work in the community. (1)

At the same time, the income tax system presented a barrier to giving. Many would-be donors have their assets invested in securities that have appreciated in value. Selling these securities to generate cash to make a donation will trigger capital gains taxes that partially offset the tax credit incentive.

The following illustrates the additional tax savings that donors realize when making gifts of appreciated publicly-listed securities.

TAX ASSISTANCE FOR CHARITABLE DONATIONS BY INDIVIDUALS
Of Cash Compared to Donations of Publicly Traded Securities

	Type of Donation		
	Cash	Securities Donated to Charity	
		Pre-2006 Budget	**2006 Budget**
Fair Market Value of Donation	$ 100	$ 100	**$ 100**
Top Marginal Tax Rate	46%	46%	**46%**
Value of Donation Credit (a)	$ 46	$ 46	**$ 46**
Typical Cost Base of Security		$ 40	**$ 40**
Capital Gain on Security		$ 60	**$ 60**
Capital Gains Tax if Security Sold		$ 14	**$ 14**
Tax Saved on Donation of Security (b)		$ 7	**$ 14**
Total Tax Assistance (a + b)	$ 46	$ 53	$ 60
Net Cost of Donation to Donor	**$ 54**	**$ 47**	**$ 40**

(1) Source – Huronia Communities Foundation