St.Marys HEALTHCARE FOUNDATION

Families, Friends and Neighbours

The Advantages of Donating Securities to Your Favourite Charity

Changes to tax laws in 2006 made it more advantageous to donate securities that have appreciated in value than the equivalent in cash.

Introduction

For tax purposes, when you make a gift of investments to a charity (or anyone else) you are deemed to have sold those investments at fair market value.

So, gifting investments to a charity can trigger a capital gain or capital loss, depending on whether the investments have increased or declined in value.

In the case of a capital gain, one half of the appreciation in market value normally becomes taxable when those gains are realized, i.e. at the time of sale or transfer.

But thanks to federal tax changes introduced in 2006, such capital gains are no longer taxed if the securities are donated to a registered not-for-profit like the Foundation.

The logic then follows that you can have the most impact by donating securities with capital gains rather than cash.

An Illustration

Let's say you want to donate $100,000 to the Foundation and you own $100,000 worth of shares in XYZ Corp. with an Adjusted Cost Base (ACB) of $50,000.

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If you sold those shares to donate cash, you'd immediately trigger a $50,000 capital gain, half of it taxable as income. That would be nearly $12,500 in taxes (assuming your marginal tax rate is 49.53%.)

However, donating the $100,000 in cash would avoid $49,530 in income taxes – a net tax savings of $37,030 (i.e. $49,530 less $12,500).*

An Illustration

But suppose you donated $100,000 in XYZshares instead of cash.

In this case, you'd avoid capital gains tax on the shares, plus enjoy a net tax savings of $49,530 due to the donation tax credit.

By donating $100,000 of securities, your donation cost is reduced to $50,470 net.

So you're further ahead donating the securities, and your charity benefits by the full $100,000.

** Figures would vary by province and personal tax margins. Please consult your advisor.*

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