

## 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.



#205, 15824 – 131 Ave  
Edmonton, AB T5V 1J4

Contact: Gordon Sorensen  
780-438-9127  
gordon@bgc.ca

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 AB Tax Rate 39%	Cash Donation (A) (Cash Out Then Donate)	Donating Securities Pre- Budget (B)	Donating Securities Post- Budget (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 39%) (A)	(\$15,600)	(\$7,800)	\$0
Tax Benefit of Gift (at *41.75%) (B)	\$41,750	\$41,750	\$41,750
Net Tax Benefit (A+B)	\$26,150	\$33,950	\$41,750
<b>Tax Savings From Donating Securities Rather 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 BC Tax Rate 43.7%	Cash Donation (A) (Cash Out Then Donate)	Donating Securities Pre- Budget (B)	Donating Securities Post- Budget (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>

## 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

Example #3 Ontario Tax Rate 46.4%	Cash Donation (A) (Cash Out Then Donate)	Donating Securities Pre- Budget (B)	Donating Securities Post- Budget (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>

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.