



Gifts of Securities

Listed Securities & Privately Owned Shares

Like most Canadians, you probably donate by cash, cheque or credit card to your church and favourite charities every year. Although these gifts are uncomplicated, they may not necessarily be the most cost-effective way to make a charitable gift.

Giving securities is often a better alternative, especially considering the changes made in recent federal budgets. You may have a portfolio of listed stocks or mutual funds that have increased significantly in value since you purchased them. You may have built a successful company, and your privately owned shares have a very low adjusted cost base. In either case, it may be more advantageous for you to make your charitable gifts with these assets and keep your cash.

This booklet discusses gifts of both listed and privately owned securities. You will find explanations of the tax benefits and some planning ideas for both types.

GIFTS OF LISTED SECURITIES

Gifts of appreciated listed securities are now more appealing than ever. This is because 100 percent of the taxable gain in a qualifying gift of securities is now *exempt from taxation*. Now, when you donate, rather than sell, these securities, you pay absolutely no tax.

When you dispose of property by way of a gift, you are deemed to have received proceeds equal to the property's fair market value. For example, if you donated securities that cost you \$4,000 and are now worth \$10,000, you would recognize \$6,000 of capital gain—just the same as if you had sold the securities for \$10,000.

However, when you give qualifying securities to a charity other than a private foundation, none of the gain is taxable. If you sell the securities, 50 percent of the gain is taxable. Your donation receipt is issued for the full fair market value of the securities on the date they are transferred to the charity. Thus, in computing the amount on your charitable tax credit, you get the benefit of all of the appreciation and pay absolutely no tax.



QUALIFYING SECURITIES AND CHARITIES

Listed securities (stocks, bonds, bills, mutual funds, warrants and futures traded on approved stock exchanges) qualify for the capital gains exemption. Approved stock exchanges include not only those in Canada, but also those in certain foreign countries. For example, shares traded on the New York Stock Exchange, the American Stock Exchange and the NASDAQ would all qualify. However, privately owned shares would not.

As noted above, the exemption is not allowed when shares—even qualifying shares—are given to a private foundation. In that case, 50 percent of the gain is taxable. Charities that receive donations from many individuals, and whose board members deal at arm's length with each other, generally would not be classified as private foundations. Such charities include universities, hospitals and other health care institutions, religious organizations, as well as arts, social service, environmental, and certain other organizations defined as charitable.

Some of these charities have created foundations through which their private fundraising activities are conducted. There may, for instance, be The University A Foundation which raises money to support University A, or The Hospital B Foundation which raises funds for Hospital B. Gifts of qualifying securities to these supporting organizations do qualify for the capital gain exemption.

(Supporting foundations should not be confused with private foundations, which are usually established by one or more family members as conduits for family philanthropy.)

REPORTING GIFTS OF LISTED SECURITIES

When you make a charitable gift of listed securities, *you need to complete Canada Revenue Agency (CRA) Form T1170* and return it with your other income tax forms. By completing this form, you do not have to include in your income any of the capital gain in charitable gifts of qualifying securities. If you were to sell the property, you would need to include 50 percent of the gain.

PLANNING OPPORTUNITIES

1. When it's time to sell: Maybe you have some securities you don't expect to perform as well in the future as they have in the past, or you expect a correction in the entire market. Nevertheless, you hesitate to sell because you don't want to pay tax on the gain. If you have been planning to make a charitable gift, this stock could be the ideal asset to use, and the net cost of the gift could be relatively low.

Example: Robert M. thinks it is time to sell some stock that is now valued at \$10,000 and has an adjusted cost base of only \$2,000. He is also planning to donate \$10,000 to charity.

Option 1: Sell Stock

Total Gain	\$8,000
Taxable Gain (50% x \$8,000)	\$4,000
Tax on Gain (46% x \$4,000)	\$1,840
Net After-Tax Proceeds (\$10,000 - \$1,840)	\$8,160

Option 2: Donate Stock

Tax Credit (46% x \$10,000)	\$4,600
Total Gain	\$8,000
Taxable Gain	\$0
Tax on Gain	\$0
Net Tax Savings (\$4,600 - \$0)	\$4,600

Net cost of gift compared to sale (\$8,160 - \$4,600) \$3,560

It costs Robert only \$3,560 to make a stock gift of \$10,000. If he had given \$10,000 cash and sold the stock, the gift would have cost him \$5,400 because he would have paid \$1,840 more tax on the capital gain.

2. When you want to hold: Unlike Robert in the previous example, you may have a stock that you think has a great future. While you like the idea of exempting the gain from taxation, you don't want to

lose out on likely future appreciation. Thus, you are more inclined to hold the stock and make this year's charitable gift with cash.

If you have such a stock, you might consider giving it and using the cash, which you otherwise would have given, to repurchase the stock on the market. Thereby, you would establish a stepped-up cost base in the stock, and when you sell it in the future, you will be taxed only on the gain accruing after the repurchase.

Example: A few years ago, Stacey M. purchased a high technology stock for \$4,000. It is now worth \$20,000, which is the amount she has been planning to contribute to her favourite charity.

Option 1: Keep stock; give \$20,000 cash to the charity

Tax Credit (46% x \$20,000)	\$9,200
Over the next 5 years, the stock increases in value from \$20,000 to \$40,000; then she sells it.	
Total Gain at Time of Sale	\$36,000
Taxable Gain (50% x \$36,000)	\$18,000
Tax on Gain (46% x \$18,000)	\$8,280
After-tax Proceeds (\$40,000 - \$8,280)	\$31,720

Option 2: Donate stock; use cash to repurchase same number of shares

Tax Credit (46% x \$20,000)	\$9,200
Total Gain at Time of Donation	\$16,000
Taxable Gain	\$0
Tax on Gain	\$0
Total Gain when Repurchased Shares are Sold	\$20,000
Taxable Gain (50% x \$20,000)	\$10,000
Tax on Gain (46% x \$10,000)	\$4,600
Total Tax on Gain (\$0 + \$4,600)	\$4,600
Net After-Tax Proceeds (\$40,000 - \$4,600)	\$35,400

Through this procedure, Stacey reduces the total tax paid on the gain by \$3,680. The primary disadvantage is payment of some of the tax five years earlier.

3. Bequest of Securities: The taxable gain exemption applies to both charitable bequests and lifetime gifts. If you intend to make bequests to charity and family members, it could be advantageous to fund your charitable bequests with appreciated, listed securities and your family bequests with other assets. You can do this either by making a specific bequest of certain securities or by empowering your executor to select the assets for the charitable bequests.

Suppose, for example, that your estate consists of your principal residence, plus cash, plus \$100,000 of listed stock with an adjusted cost base of \$40,000, and that you want to leave \$100,000 to charity and the balance to your children. If the stock goes to the children, \$30,000 of the gain ($50\% \times \$60,000$) will be taxed; but if it goes to charity, none of the gain will be taxed.

Better, then, to give the charity your stock and the children your cash and principal residence, neither of which is taxable.

CONTRIBUTION LIMITS

The maximum amount of contributions made prior to the year of death that can be claimed for credit in any one year is 75 percent of net income—both for gifts to registered charities and to the Crown. Unused contributions can be carried forward for up to five years beyond the year of the gift.

The contribution limit for gifts made in the year of death (including bequests) is 100 percent of net income reported on the terminal income tax return, with a one-year carryback.

For gifts of appreciated property of any kind, the contribution limit is 75 percent of net income (which includes taxable gain) and 0 percent of the taxable gain. In other words, when you give an asset other than cash, you can use your donation receipt to the extent of 100 percent of taxable gain in the property plus 75 percent of income from other sources. The tax credit resulting from the usable amount of your donation receipt results in significant tax savings.

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BOTTOM LINE

When you give any kind of property, you will never have a tax cost, and you will almost always save taxes. Furthermore, for gifts of listed securities, those tax savings are bigger than ever.

If you are not a shareholder in a privately owned company, you may want to stop reading at the end of this paragraph. The rest of the booklet is especially for owners of companies. Please call our office for instructions on how to transfer securities to Siloam Mission—or for information on other methods of planned giving.

GIFTS OF PRIVATELY OWNED SHARES

You may be a community-minded entrepreneur inclined to make large charitable gifts. However, you have few assets other than shares in your family company. These shares could be common or preferred stock and could be shares in either an operating or a holding company.

Any major gift you make will have to be with these shares. Possibly you hesitate to give shares to a public charity because you don't want to risk having the charity peer inside your company or try to sell shares to an outsider. The charity, likewise, may hesitate to accept such shares because there is no market for them and they pay no dividends.

Often, these concerns can be allayed and a gift of private shares designed to the mutual satisfaction of the donor and the charity. The donor can retain voting control, and the charity can realize significant financial benefits—by eventually selling the shares to the company, other shareholders, or an external purchaser of the entire company and, perhaps, by receiving dividends in the meantime. The latter is more likely when the shares are preferred.

The tax implications of such gifts are summarized on the following pages.

GIFTS OF PRIVATELY OWNED SHARES TO A PUBLIC CHARITY

When you give privately owned shares to a public charity (such as Siloam Mission), a donation receipt for the appraised market value of the shares is issued at the time of the gift, provided that you deal at arm's length with the charity and each of its directors and officers. Because the gift consists of privately owned—rather than listed—securities, you will be taxed on 50 percent of the gain. However, your tax credit will almost always exceed the tax on the gain, resulting in net tax savings.

Example: John B. gives shares in his family business to a public charity. The shares have been appraised at \$100,000, but his adjusted cost base is a mere \$10,000.

Tax Credit (50% x \$100,000)	\$50,000
Total Capital Gain	\$90,000
Taxable Gain (50% x \$90,000)	\$45,000
Tax on Gain (46% x \$45,000)	\$20,700
Net Tax Savings (\$50,000 - \$20,700)	\$29,300

John meets a philanthropic objective, saves taxes now, and reduces the total gain in his estate that will eventually be subject to tax. The charity receives an asset potentially worth \$100,000 or more and may receive dividends in the meantime.

GIFTS OF PRIVATELY OWNED SHARES TO A PRIVATE FOUNDATION

When you give privately owned shares to a private foundation, a donation receipt is allowed, not when the shares are transferred to the foundation, but when the foundation sells them. The amount of that donation receipt will be the lesser of the amount realized by the foundation and the appraised value of the shares at the time they were transferred to the foundation.

If the charity does not sell the shares within five years, you will never get a donation receipt, nor will you be taxed on the gain. You

will be taxed on 50 percent of the gain at the time any donation receipt is issued.

Clearly, gifts of privately owned shares have greater tax benefits when made to a public charity than when made to a private foundation. Still, such gifts could be appealing to donors who want the control afforded by a private foundation, who believe the shares will be sold within five years, and who are willing to postpone the tax credit.

GIFTS OF LISTED SECURITIES BY A PRIVATELY OWNED COMPANY

Perhaps you have a holding company with a portfolio of listed securities. If so, you may want to meet your philanthropic objectives by having your company contribute some of the securities. Gifts by corporations, as well as individuals, qualify for the capital gain benefit.

Example: Holdco, a private company, contributes to a public charity listed securities having a fair market value of \$100,000 and an adjusted cost base of \$40,000. The company's annual income is \$200,000, and its tax rate is 40 percent.

Income before Gift	\$200,000
Charitable Deduction	\$100,000
Taxable Income	\$100,000
Reduction in Taxable Income (\$200,000 - \$100,000) ...	\$100,000
Tax Savings (40% x \$100,000)	\$40,000

Not only does the company reduce its taxes, but the shareholders also benefit. Since capital gains are tax-free when listed securities are donated to a public charity, the shareholders can receive this amount as a tax-free dividend. When the benefits to the company and shareholders are combined, gifts of listed securities by a holding company to a public charity can be quite attractive.

All examples are current as of September 2006 and are subject to change.



About Siloam Mission

As a Christian humanitarian agency, Siloam Mission is a connecting point between the compassionate and Winnipeg's less fortunate.



Siloam Mission alleviates the hardships of poverty and homelessness as Mission staff, volunteers and donors provide free meals, shelter, clothing and support services.



The Mission assists in transitioning homeless and disadvantaged people to more self-sufficient and healthier lifestyles by providing referral services, life-skill development, education upgrading and employment training opportunities.



Financial Planning

The information in this booklet does not constitute legal or financial advice and should not be relied upon as a substitute for professional advice. You should always seek professional legal, estate planning, and financial advice before deciding on a course of action.



If you would like information on other methods of planned giving, please contact us and we would be glad to assist you in whatever way we can.



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