



Gifts of Securities

Since 2006 there has been no income tax on the capital gains of securities which are donated to Canadian charities. This creates an opportunity for people who want to make a significant charitable donation. The tax advantage makes it less costly to donate shares than cash!

When a person sells or donates investment assets that have appreciated in value, the difference between the current value and the original cost equals the capital gain. Old rules required that a portion of capital gain be included as taxable income, even when the property was donated to charity. Current rules say that when publicly listed securities – such as stocks, bonds and units of mutual funds or income trusts – are donated to a charity, there is no tax at all on the capital gain.

In addition to the elimination of the tax on the gain, the donor also benefits from a charitable donation receipt in the amount of the current market value of the asset. A gift of appreciated securities has now become one of the most tax-effective ways to make a planned gift.

Let's look at an example.

Suppose Mr. Carlson owns shares in a Canadian company, purchased for \$30,000 some years ago but worth \$50,000 today. We will assume for the sake of simplicity that his tax rate and charitable credit rate are both 40% *. He wants to make a planned gift and is trying to decide whether to give the shares to the church or sell the shares and give the same amount in cash. Here's the comparison:

Line		Donate Shares	Sell Shares and Donate Cash
A	Market value of shares	\$50,000	\$50,000
B	Cost basis of shares	\$30,000	\$30,000
C	Capital gain realized from disposition (A - B)	\$20,000	\$20,000
D	Capital gains inclusion rate	0%	50%
E	Taxable capital gain (C x D)	\$0	\$10,000
F	Tax payable on capital gain (40% of E)	\$0	\$4,000
G	Donation receipt from charity (= A)	\$50,000	\$50,000
H	Donation tax credit (40% of A)	\$20,000	\$20,000
I	Net income tax reduction (H - F)	\$20,000	\$16,000
	Comparative advantage of donating shares	\$4,000	

* Actual taxation and charitable credit rates may be different, and will vary by province.

Mr. Carlson is much better off donating the shares – in this case, there is a \$4,000 advantage. Other circumstances will produce different financial results, but the donation of appreciated securities will always come out ahead.

The tax credit generated by the donation of the shares will offset tax owing on other income. The limit on the total of charitable donations claimable is 75% of income in the year. If he's not able to use the entire credit in the year of the donation, Mr. Carlson may carry forward the unused portion to any of the next five taxation years.

A donation of appreciated securities may also be made in a will. In that case the tax credit will be used in the donor's final tax return. If the full amount is not needed in that year, the excess may be carried back to the prior year. In the year of death and the prior year donations may be claimed up to a limit equal to 100% of the person's income.

For the tax benefits to be realized, it is absolutely essential that there be a "gift in kind". That means that the property itself must be transferred to the church.

To receive such a gift, the church must have an investment account capable of holding the security being donated. Once the gift is received in the account, the church would then be free to either hold the shares as an investment or sell them for cash.

If the congregation doesn't have its own investment account, ELFEC can receive the transfer on its behalf. In that case ELFEC would sell the securities, send the proceeds to the church and provide a donation receipt to the donor. Lutheran Planned Giving can help individuals make the proper arrangements for this kind of gift, whether it takes effect during the donor's lifetime or in their will.

A gift of either cash or securities would be of great benefit to the church's programs, but the gift of securities has significantly better tax consequences for the donor.

These figures are approximate and for illustrative purposes only. Anyone contemplating a gift of this kind should consult a qualified financial advisor before making any decisions.

For further information about planned gifts, call Lutheran Planned Giving at 1-888-308-9461.

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