

GIFT OF APPRECIATED SHARES

The 2006 federal budget was music to the ears of many Canadian charities. The reason for such excitement was that the federal government had eliminated the tax associated with the gift-in-kind of publicly listed securities to a charitable organization or a public foundation. Prior to this most recent change, the rule was that the taxable capital gain triggered by such gift-in-kind was 25 per cent of the capital gain or half of the normal inclusion rate.

Consider the following example of an individual with a \$10,000 stock portfolio that has an adjusted cost base of \$6,000. If the individual were to sell the portfolio, he would incur an income tax liability of about \$900 (assuming a top marginal tax rate of 45% on the taxable capital gain of \$2,000). If he were to sell his stock portfolio and then make a gift of the proceeds, he would have a charitable receipt for \$10,000, which would generate about \$4,500 of tax shield (assuming a charitable tax credit rate of 45 per cent). However, because the donor sold the shares prior to the specific donation, the \$900 income tax liability would be triggered.

Prior to the 2006 budget announcement, if this individual were to gift his stock portfolio directly in-kind to a charitable organization, the disposition of the portfolio would trigger tax on the capital gain of \$450 (i.e., one-half of the normal capital gains inclusion rate) and a charitable tax credit of \$4,500, resulting in a net cost of the gift of \$5,950.

Effective May 2, 2006, however, the federal budget eliminated any tax on the gain triggered by an in-kind donation of securities, resulting in a reduced cost of the gift to \$5,500. Therefore, donors no longer need to consider the tax cost of any gain triggered by such a donation.

By making a gift-in-kind of publicly listed securities, donors will be able to avoid any accrued income tax liability associated with the disposition. This can significantly improve a donor's position and hopefully encourage larger gifts to be arranged.

Next Issue: "Estate Planning Series Continues"

The information provided above is just one of the many ways you can provide a significant gift to your favourite charity. Please talk with a professional advisor to see what options are best for you.