

Donating Appreciated Securities

The benefits of making a charitable donation are countless – from helping those in need to the personal satisfaction we feel when giving something back to a cause we feel passionate about. With proper planning, you can reduce your total income tax liability and maximize the value of your donation. In an effort to increase charitable donations, the federal government has eliminated the capital gains tax on donations of publicly traded securities to public charitable organizations¹. Qualified securities include shares, bonds and mutual funds listed on a prescribed stock exchange that have appreciated in value.

Charitable Donation Tax Credit

As with cash donations, the fair market value of property donated will reduce the donor's taxes through a charitable donation tax credit. The maximum donation you can claim on your tax return each year is 75% of your net income. Donations that cannot be claimed in the year can be carried forward for up to five years. For donations in excess of \$200 the tax credit is calculated at the top marginal rate regardless of the marginal rate of the donor.

To encourage donations by bequest, in the year of death the maximum donation that can be claimed is 100% of the deceased's net income. Any donations that cannot be claimed in the year of death can be claimed against the previous year's tax return, also up to 100% of net income in that year.

Donating Securities

If you are planning to make a charitable donation this year, consider this tax-saving strategy. If you've determined that you will be selling some of your current investments, you have an opportunity to reduce the tax you would otherwise have to pay on the sale of your investments if you donate the investments directly to a charity. Although a donation of property is considered a disposition for tax purposes, under the new tax rules, the taxable capital gain realized on the donated security is eliminated. In either case, you will receive a tax receipt for the full amount of your donation regardless of the tax treatment of the capital gain.

The table below illustrates how this special incentive increases the value of a charitable donation when the property donated is a qualified security instead of the cash proceeds from the sale of a security. The example assumes the capital gain realized on the sale is \$50,000, and the entire \$50,000 is donated to a charity. In the first column, the security is sold and the cash proceeds are donated. In the other column, the security is donated directly to a charity.

	Sell Security and Donate Cash		Donate Security	
Tax on disposition				
Capital gain on sale of security	\$50,000		\$50,000	
Taxable portion	50%		0%	
Taxable Capital Gain	\$25,000		\$0	
Income Tax (46%) ²		(\$11,500)		(\$0)
Donation credit				
Charitable donation amount	\$50,000		\$50,000	
Add tax savings from donation (46%)		\$23,000		\$23,000
Net tax savings		\$11,500		\$23,000
Net cost to donate \$50,000		\$38,500		\$27,000

As shown, a donation of securities may be preferred over a cash donation of equal value, particularly if you have already decided to dispose of the securities during the year.

This strategy can also be used in the year of death to reduce tax to the estate and create a significant donation to a charity at a fraction of the cost. In the next example, we calculate the net proceeds of an investment that is worth \$50,000 and has an unrealized gain of \$20,000. Let's look at how making a \$25,000 donation from this investment will impact the estate's tax liability.

By donating half of the investment, the total tax liability to the estate is reduced. So much so that a \$50,000 investment provides the estate with after-tax proceeds of \$34,200 but also provides for a \$25,000 donation to a charity. In other words, it costs the estate only \$11,200 (\$45,400 - \$34,200) to make a donation of \$25,000 to a charity.

Contact your BMO Nesbitt Burns Investment Advisor for more information on donating your appreciated securities.

	No Donation		Donation of half of the account	
Current value of investments		\$50,000		\$50,000
Capital gain	\$20,000		\$20,000	
Taxable portion	\$10,000		\$5,000 ^{2,3}	
Income Tax (46%) ²		(\$4,600)		(\$2,300)
Net Cash		<u>\$45,400</u>		<u>\$47,700</u>
Donate half of the investments				
Less charitable donation amount				(\$25,000)
Add tax savings from donation (\$25,000 @ 46%)				\$11,500
Net cash to the estate		\$45,400		<u>\$34,200</u>
Net cash to charity				\$25,000

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¹ This rule does not apply to donations made to private foundations.

² Based upon the top rate in Ontario in 2006.

³ \$20,000 Total Gain less 50% non taxable due to donation x 50% inclusion rate.

The comments included in this publication are not intended to be a definitive analysis of tax law. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

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