

Non-Cash Gifts

Many larger charitable gifts are not made with cash but rather with securities, real estate, business interests, and collectibles. One reason is that much of the wealth of more affluent individuals consists of assets other than cash. Another is the tax advantages of giving listed securities and certain other types of property. Those advantages are explained below.

The general rule is that a gift of property is treated as a disposition at fair market value. In other words, the capital gain is recognized whether the property is sold or contributed, and 50 percent of the gain is taxable. However, there are exceptions to this rule.

- The gain in a principal residence is not taxed when the property is sold or contributed to a charity.
- When qualified Small Business Corporation shares and qualified farm and fishing property is sold or contributed to a charity, the first \$813,600 of capital gain is exempt from taxation in 2015.
- When ecologically sensitive land or certified cultural property is contributed, none of the gain is taxable.
- When listed securities (stocks, bonds, mutual funds and certain other investments sold on an approved exchange) are contributed, all of the gain is exempt from taxation.

The fourth of these exceptions has proven the most important for charities. Since the legislation exempting capital gain in listed securities from taxation was enacted, the number and value of such gifts have grown significantly.

The reason can be demonstrated by an example.

Example: *Sandra donates listed stock worth \$100,000. She paid \$40,000 for the stock a few years ago, so she has a capital gain of \$60,000. Her tax credit from the gift is \$46,400, and she pays no tax on the capital gain. Prior to the legislation exempting the gain from taxation, she would have had \$30,000 of taxable capital gain (50% of \$60,000) resulting in tax of \$13,920, so her net tax savings would have been \$32,480 (\$46,400 - \$13,920).*

Another way to show the advantage of contributing listing securities is to compare a contribution with a sale of them. If Sandra sells her stock rather than donating it, she would pay the \$13,920 tax on capital gain, leaving her with \$86,080 of after-tax proceeds. The cost of contributing the stock compared to selling it would be the difference between the net sales proceeds of \$86,080 and her tax credit of \$46,400, which is \$39,680. Her net cost of making a \$100,000 gift is less than \$40,000.

Similar results can be achieved from a contribution of non-cash assets, such as a principal residence or qualified Small Business Corporation shares or farm property that would be exempted from tax on the gain. But what about a gift of investment real estate or art works where the gain is not exempt from taxation?

Example: *Howard contributes rental duplex which appraises for \$500,000, and his adjusted cost base is \$200,000. Since this property does not qualify for the capital gains exemption, he will recognize the gain of \$300,000 and be taxed on \$150,000 of this amount. His tax on the gain is \$69,600. However, he receives a donation receipt for \$500,000, and that results in a tax credit of \$232,000. His net tax savings are \$162,400. Although not as generous as from a gift of listed securities, the savings are still significant.*

Claiming the Tax Credit

The maximum amount of a donation receipt that is creditable in any one year is:

- 75 percent of the donor's net income for the year (including taxable gain from the gift), **plus**
- 25 percent of the taxable gain arising from the gift.

In the case of a gift of listed securities, or other property qualifying for a capital gain tax exemption, the limit will be 75 percent of net income. But in the case of other assets, the limit is larger, making it possible to use the donation receipt more quickly. In all instances, the donor has six years total – the year of the gift plus up to five carry-forward years to use the receipt for credit.

How to Make a Non-Cash Gift

Our organization accepts listed securities. Simply call our office at _____ for transfer instructions. We are also willing to accept other types of assets, such as real estate, private company shares, fine artwork and collectibles, subject to approval by our Gift Acceptance Committee. Whereas the donation receipt for listed securities will be based on quoted prices, an appraisal is required to establish the value of other types of assets. You may find it advantageous to make your charitable gifts with appreciated property and preserve cash for family gifts.