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Stock Number: D11
668 words

GIVING APPRECIATED SECURITIES

Whether a charitable gift is made during life or through a will, it is now advantageous to make the gift with listed securities. You receive a tax credit based on the fair market value of the securities, and none of the capital gain is taxed to you. These benefits apply whether your gift is to a public charity, such as our institution, or to a private foundation. “Listed securities” include stocks, bonds, and mutual funds traded on an approved exchange.

Because of the double tax benefit of giving listed securities, it may be better for you to give them instead of cash. In fact, as the following example demonstrates, the net cost of a gift of securities can be relatively small. In the following example, Bill has owned a certain stock for a number of years during which it has appreciated in value from his purchase price of $2,000 to $10,000. He has been thinking of selling the stock in order to harvest his gain, and he would also consider a gift. In the province where Bill lives, he would be subject to a combined federal-provincial tax rate of 46%, and his charitable tax credit would also be 46% of the donation he claims.

Sale of Stock		**Gift of Stock**	
Sales proceeds	$10,000	Donation receipt	$10,000
Total gain	8,000	Tax credit	4,600
Taxable gain (50%)	4,000	Taxable gain (0%)	0
Tax on gain (46%)	1,840	Tax on gain (46%)	0
After-tax proceeds	**8,160**	Net tax savings	4,600

The net cost of a $10,000 gift is only **$3,560** ($8,160 - $4,600).

This is the difference between the *after-tax proceeds* in the case of a sale and the net tax savings in the case of a gift.

Let’s suppose that Bill wants to make a gift of $10,000, but he hesitates to contribute the stock because he thinks it will continue to appreciate in value. Thus, he is thinking of giving cash instead. Although any charity would welcome such a gift, Bill might consider an alternative. He could contribute the stock and then use his cash to repurchase it. If the stock grows in value to $15,000 and Bill then sells it, he will realize gain of only $5,000 ($15,000 less his stepped-up cost basis of $10,000). However, if he had retained the stock and sold it for $15,000, he would have realized $13,000 of capital gain.

Making a Charitable Bequest with Listed Securities

If your estate includes listed securities, cash, and other assets, and you want to provide for charity as well as surviving family members, it is better to arrange for some of your appreciated securities to be given to the charity and your cash and other assets to family members. That is because the gain in the securities given to charity via a bequest will not be taxed whereas 50 percent of the gain in those securities would be taxed if they went to children and grandchildren.

Since you do not know what particular securities you may own at the end of your life, you could include will language authorizing your executor to select the assets with which to fulfill your designated bequest. The executor can then select the most highly-appreciated stocks for the charitable bequest.

Why Gifts of Appreciated Securities Have Become More Common

In the United States, donors have long enjoyed an exemption from tax on the gain when they gave appreciated property. In Canada, however, it used to be the case that donors who contributed appreciated securities would incur the same tax on the gain as they would if they had sold the securities. Since the law was changed a few years ago, gifts of securities have increased significantly in Canada. That is not surprising given the current double tax benefit of a donation receipt for the fair market value of the securities and an exemption from taxation of gain.

If you are considering a gift of securities, please contact us with your questions and for instructions about transferring the securities into our account.