

Tax-Effective Donations of Public Securities

When you donate appreciated public securities to a Canadian registered charity you receive two tax savings: 1) a tax credit that is typically equal to the highest marginal tax rate; 2) no capital gains tax on the disposition. Combined these savings make appreciated securities the most tax-effective way to give a simple donation.

There are a number of publicly-traded securities that qualify. The most common types are appreciated stocks and trust units, but it is possible to donate bonds, futures and options, and shares or units in mutual funds. The incentive also applies to gifts of public securities obtained through employee stock options and to unlisted exchangeable shares -- as long as the gift is made within 30 days of the exercise or exchange.

These tax savings may increase the amount you can afford to give, or simply reduce the out-of-pocket expense of your gift. Corporations (which receive tax deductions, not credits) are also eligible for this incentive.

Significant tax savings

This table compares the tax consequences of donating cash proceeds of sold securities versus donating securities in-kind. The marginal tax and tax credit rates are assumed to be 45% for illustration purposes.

	Sell Security & Donate Cash	Donate Security
Value of security/donation	\$10,000	\$10,000
Cost of security	\$5,000	\$5,000
Taxable capital gain @ 50%	\$2,500	\$0
Tax on gain @ 45%	\$1,125	\$0
Tax credit @ 45%	\$4,500	\$4,500
Net tax savings	\$3,375	\$5,625

Donations of public securities must be transferred “in-kind” to the charity. Typically the security is transferred electronically to the charity’s brokerage account. The receipt is normally based on the closing price of the security on the day of receipt. Most charities sell the security upon receipt to ensure the value of the gift is realized for their mission.

Through the Scotiabank Group team of experts, we can help you develop a charitable giving plan that is right for you. Your plan may involve gifts to your favourite causes on an annual basis or in your estate plan. Or it may include the establishment of a donor advised fund or a private foundation. Whatever your goals, we can help.

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