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Donor advised funds, endowment funds, gift planning, planned giving, donating gifts of securties

Case Study: Donating Optioned Stock

Nicola Elkins · Wednesday, April 21st, 2010

Donating Optioned Stock

Tax planning for each client can be as individual as they are. As part of a holistic wealth management approach, it is important to understand all the tax planning opportunities available, especially those that enable them to successfully achieve their charitable giving objectives.

Many clients will hold employee stock options which, when exercised, will result in cash proceeds that will be considered a taxable benefit or income.

As part of a giving strategy, a client can choose to donate part or all of their employee stock option cash proceeds, once exercised and then sold, to a registered charity or foundation. They must make the donation of the desired amount within 30 days of the sale.

Donating optioned stock cash proceeds is treated the same as if it were a donation of publicly traded securities by the Income Tax Act. The client will receive an income tax receipt for the donation. They will also have been able to maximize the value of their donation to the charity, while minimizing their tax burden.

Example: Gift of Cash Proceeds

Robert has been with the same rapidly-growing company for over 10 years. He has achieved many promotions and received performance-based bonuses annually. These bonuses as well as part of his annual base compensation have often been in the form of employee stock options in the company. Robert would like to make some renovations to his vacation property and he is considering giving a gift to his favourite charity. He has approached his advisor to understand the tax implications of exercising a portion of his options.

Robert owns 10,000 vested stock options. His marginalized tax rate is 45%. He would like to donate at least $50,000 to charity from the proceeds. After his advisor had sent him the following illustration, Robert proceeded with a $100,000 donation to his favorite charity.

FMV	No Gift	Keep	Donated
Cash from Sale	$500,000	$400,000	$100,000
Exercise price (ACB/FMV) = 40%	$200,000	$200,000	
Employee Benefit	$300,000	$200,000	$ -
Less Employee Deduction	$150,000	$120,000	$ -
Gain on Sale	$150,000	$120,000	
Tax on income (Benefit x MTR)	$67,500	$54,000	$ -
Tax credit (gift x 45%)	n/a	n/a	$45,000
Total proceeds	$232,500	$146,000	$191,000

Total proceeds = $300,000 net cash from sale – $100,000 cash donation – $54,000 takes on retained portion + $45,000 tax credit from donation = $191,000

Benefits to the Client

•Clients can make a significantly larger donation to their chosen charity or foundation.
•Tax is minimized in two ways: (1) a reduction in capital gains tax and (2) a tax credit is received from the donation which can be used to reduce income tax that year..

Gifts of Securities Acquired Under an Employee Stock Option Plan

Donors can also choose to donate the vested options directly to a registered charity or foundation. In this case, they would receive a tax receipt for the fair market value. None of the capital gain, if any, will be reported as income, and the capital gain is reduced to zero for the charity or foundation.

Correction Notice: Special thanks to tax expert Jamie Golombek of CIBC for pointing out an error on the table that was distributed in this newsletter. The deduction of the exercise price was omitted from the donated portion on that version, but has been corrected here.

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