

| Benefaction Charitable Public Foundation

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

Case Study: Gifts of Appreciated Securities

Nicola Elkins · Wednesday, October 27th, 2010



Tax Planning Opportunities for Gifts of Securities

When thinking about tax planning for your clients, ask yourself if they are inclined to donate to charity. For clients who hold highly appreciated shares, recent tax rule changes brought wonderful news and have significantly increased donations of listed securities over recent years. The Government's reduction of the capital gain inclusion rate to zero percent for donations of listed securities eliminates the tax on the capital gains from the gifting of those securities. This preferred tax treatment has proved to be a powerful incentive to give.

Listed securities of publicly traded stocks, bonds, bills, warrants, and mutual funds all qualify. But remember, to receive this additional tax benefit, the charity must receive the listed security in kind.

Example: Gift of Cash vs. Gift of Securities

Susan lives in Manitoba. Through the Direct Giving option of the Charitable Giving Program, she contributes to a public charity of her choice listed stock with a fair market value of \$100,000 and a cost base of \$10,000. Her net income is \$160,000 per year, and her other charitable gifts exceed \$200.

	Sell Stock & Donate Cash	Donate Stock In-Kind
Capital gain	\$ 90,000	\$ 90,000
Taxable gain (50%)	\$ 45,000	0
Tax on gain (46.4% x \$45,000)	\$20,880	0
Donation receipt	\$100,000	\$100,000
Donation tax credit (assuming tax credit of 46.4%)	\$ 46,400	\$ 46,400
Net tax savings (Tax CR – Tax on Gain)	\$25,520	\$46,400
After tax cost of donating stock vs. cash (FMV – Net tax savings)	\$74,480	\$53,600

Annual Contribution Limit

The contribution limitation for in-kind gifts that have appreciated in value is 75 percent of annual net income from all sources. Any excess may be carried forward and claimed in any of the next five years.

Benefits to Your Clients

You can now help clients to make their annual donations more tax-efficiently. By transferring their most highly appreciated securities (like demutualized shares) from their account to Benefaction through the Charitable Giving Program, they can easily give to their chosen cause and at the same time eliminate any capital gains they would otherwise have to pay on the sale of those assets. Plus, they will receive a tax receipt right away for the fair market value of the securities.

Private foundations are also eligible for similar tax treatment for gifts of lifted securities

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