

# GIVE YOUR SECURITIES TO A GOOD CAUSE

par Michel Girard (\*)

“Mr. James Flaherty, Federal Minister of Finance introduced in his 2006 spring budget a new fiscal rule by which the capital gains are no longer taxable if you give your securities to a non-profit organization (ex.: Jeunesse au Soleil” or to a public foundation (ex.: Centraide). Mr. Michel Audet, his Provincial counterpart did the same.

Thus, since May 2<sup>nd</sup> 2006, donors no longer pay any Federal nor Provincial tax on the profit they make by giving away their securities ( shares, mutual fund stocks, I units trust units... ) to registered charitable organizations.

Upon transfer of the securities, the charitable institution will issue a donation income tax receipt to the donor based on the market value of the said securities.

It is very important to note that in order to be exempted from the capital gain tax, the securities must be transferred officially to the Organization. The latter will then decide the time to sell them and cash the market value of the securities

It is interesting to note that both the donor and the charitable organization gain from the new legislation. While the latter inherits a larger sum of money, the donor in return will have a more important deduction off his total taxable income.

Let us assume that you are subject to a marginal income tax rate of 48%. You want to give away 400 shares which have doubled in value, from \$5 to \$10 per share. The capital gain on the transaction is \$2000 and the market value of the 400 shares is worth \$4000.

The new fiscal rules allows you to give your 400 shares worth \$4000 and be given a receipt for the same amount, thus saving \$1920 in income tax (48% X \$4000).

I have taken for granted here that the \$4000 gift was over and above the first slice of \$200 worth of charitable donation which normally is deductible at a lower rate.

Let us have a look at what would have happened under the previous system. Since 50% of the capital gain was taxable, you would have paid tax on \$1000, or \$480. You would have given only \$3520 to the charitable organization. You would have saved \$1689.60 (48% of the \$3520 donation).

As you can see, the organisation would have received \$480. less and you would have paid \$230. more income tax.

Donations deductible during one fiscal year cannot exceed 75% of our net income. However, during the year a person dies, the estate can deduct 100% of the net income coming from charitable donations. Should the total exceed the permitted limit, it is then possible to claim a deduction for the year prior to the death.

In normal circumstances, claims for approved charitable donations can be submitted during the current year or the five following years.

Let us remind you that Revenue Canada and Revenue Quebec allow consolidating the charitable donations of both spouses .”

(\* ) Mr. Michel Girard’s article in La Presse has been translated to English to the best of our ability.