

The Many Benefits of Donating Securities to Charities

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Jamie regularly supports Canadian registered charities by donating cash. Normally, Jamie would donate about \$5,000 in cash every year. Jamie has heard that donating publicly-traded securities provides more tax benefits than donating cash. Jamie currently holds 500

BankCo shares with a large accrued capital gain of \$26,000 (total average cost of \$10,000 and fair market value of \$36,000). Jamie wants to continue holding BankCo shares because of the dividend entitlements.

How can Jamie benefit from donating Bankco shares to a registered charity?

- 1) The donor does not incur any disposition or transfer fees when donating securities.
- 2) The donation tax receipt value is equal to the fair market value of the donated securities.
- 3) The capital gains inclusion rate on the donation disposition is zero, thus eliminating tax on the capital gain.
- 4) If a capital loss results from the donation, the loss is claimable under the normal deduction rules.
- 5) There are no tax rules that prevent the donor from claiming the zero capital gain if they re-purchase the same security. Superficial loss rules will apply if the donated securities result in a capital loss and the donor or an affiliated person purchases the same shares within 30 days before or after the donation date.
- 6) On an after-tax basis, the donor is economically better off by donating securities instead of the same cash value.

Jamie can donate some of the shares and buy back the shares on the market to replace them, thus increasing the average adjusted cost base for tax purposes while still maintaining the same holdings and dividends.

	Quantity	Cost/share	Total ACB	Price	Total FMV	Gain	
Current holdings	500	20	10,000	72	36,000	26,000	<i>not taxable</i>
Donate shares	(70)	20	(1,400)	72	(5,040)	3,640 = 0	
Balance after donation	430	20	8,600	72	30,960		
Repurchase at FMV	70	72	5,040	72	5,040		
Higher ACB balance	500		13,640		36,000	22,360	

Jamie has eliminated \$3,640 of future capital gains by donating \$5,040 of shares rather than \$5,040 in cash; instead, she uses that cash to replace the donated securities.

Jamie also received a donation tax receipt for the full value of \$5,040, saving from \$2,257 to \$2,663 in taxes, depending on Jamie's provincial residence and her taxable income level for the year.

CONSIDER:

- Donating securities with large accrued gains, including employer shares, to eliminate tax on gains
- Repurchasing favoured holdings to average up the ACB for future sale or deemed disposition at death
- Realizing losses through share donations to avoid disposition fees (warm fuzzy feelings may offset the sting of a loss)
- Clearing out odd lot shareholdings through donations
- Donating securities where the ACB is unknown (e.g., lost trade confirmations, multi-buys, complex re-organizations)

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