Cancer Research Society

100% research since 1945

GIFT OF SECURITIES

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In 1945, several Montreal women were deeply concerned about the lack of cancer research in Canada. Under the leadership of Mrs. Betty Caplan, these enterprising ladies founded the Cancer Research Society.

Through fundraising activities such as teas, bazaars, and bake sales, they collected $2,400 in donations for cancer research during their first year of activity. Since then, the Society has developed into a national organization that annually raises millions of dollars to support approximately 100 research projects each year in respected Canadian institutions.
The members of the Board of Directors serve on a voluntary basis, as do the renowned scientists who comprise the Scientific Advisory Board. Many dedicated volunteers assist with administrative work and fundraising activities.

The Society is a major national organization that exclusively funds cancer research, awarding grants to innovative scientists working in Canadian hospitals and universities. In the last 20 years, the Cancer Research Society has funded a total of over 110 million dollars of cancer research across Canada, including over 40 million in the past five years.

Please note:

This brochure was created for donors and friends of the Cancer Research Society. Although the information contained herein comes from reliable sources, it is not a substitute for professional advice. We recommend that you consult legal, financial, and estate planning specialists before making a decision involving planned giving. The Cancer Research Society, its employees, its advisors, and its representatives cannot accept responsibility for errors, omissions, or damages, which could be related to the publication of this material.

Throughout the text, when necessary, the masculine singular pronoun is gender-neutral, designating both men and women.

Ce document est également disponible en français.

GIFTS OF SECURITIES

Introduction

Like most Canadians, you probably write cheques every year to your favourite charities. These gifts are uncomplicated, they are certainly welcomed by the charities, and they do result in a tax credit. However, writing a cheque is not necessarily the most cost-effective way to make a charitable gift.

Giving securities is often a better alternative, especially considering the changes made in recent Federal Budgets. You may have a portfolio of listed stocks or mutual funds that have increased significantly in value since you purchased them. You may have built a successful company, and your privately owned shares have a very low adjusted cost base. In either case, it may be more advantageous for you to make your charitable gifts with these assets and keep your cash.

This booklet discusses gifts of both listed and privately owned securities. For both types, you will find explanations of the tax benefits and some planning ideas.

GIFTS OF LISTED SECURITIES

Gifts of appreciated listed securities are now more appealing than ever. That is because one-half of the taxable gain in a qualifying gift of securities is now exempt from taxation. Consequently, you will pay less tax on the gain when you donate, rather than sell, these securities.

When you dispose of property by way of a gift, you are deemed to have received proceeds equal to the property's fair market value. For example, if you donate securities which cost you $4,000 and which are now worth $10,000, you would recognize $6,000 of capital gain – just the same as if you sold the securities for $10,000.

However, when you give qualifying securities to a charity other than a private foundation, only 25 percent of the gain is taxable. If you sell the securities, 50 percent of the gain is taxable. (Prior to the 2000 Federal Budgets, these numbers were 37 1/2 percent and 75 percent, respectively.)

Your donation receipt is issued for the full fair market value of the securities on the date they are transferred to the charity. Thus, in computing the amount of your charitable tax credit, you get the benefit of all of the appreciation, but you are now taxed on a small fraction of it. Consequently, your net tax savings (tax credit less tax on the gain) are larger than before.

Qualifying Securities and Charities

Listed securities (stocks, bonds, bills, warrants and futures traded on approved stock exchanges, and mutual funds) qualify for the partial capital gains exemption. Approved stock exchanges include not only those in Canada, but also those in certain foreign countries. For example, shares traded on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ would all qualify. However, privately owned shares would not.

As noted above, the partial exemption is not allowed when shares – even qualifying shares – are given to a private foundation. In that case, 50 percent of the gain is taxable. Charities that receive donations from many individuals, and whose board members deal at arm's length with each other, generally would not be classified as private foundations. Such charities include universities, hospitals and other health care institutions, religious organizations, as well as arts, social service, environmental, and certain other organizations defined as charitable.

Some of these charities have created foundations through which their private fund raising activities are conducted. There may, for instance, be The University A Foundation which raises money to support University A, or The Hospital B Foundation which raises funds for Hospital B. Gifts of qualifying securities to these supporting foundations do qualify for the partial capital gain exemption. (Supporting foundations should not be confused with private foundations, which are usually established by one or more family members as conduits for family philanthropy.)

Reporting Gifts of Listed Securities

When you make a charitable gift of listed securities, you need to complete Canada Customs and Revenue Agency Form T1170 and return it with your other income tax forms. By completing this form you are able to include in your income only 25 percent of the capital gain in charitable gifts of qualifying securities, rather than the 50 percent that would be included if the property were sold.

Planning Opportunities with Listed Securities

1. **When it is time to sell.**

   Possibly, you have some securities that you do not expect to perform as well in the future as they have in the past, or maybe you expect a correction in the entire market. Nevertheless, you hesitate to sell because you do not want to pay tax on the gain. If you have been planning to make a charitable gift, this stock could be the ideal asset to use for that gift. The net cost of the gift could be relatively low. Consider this example.

   Example: *Charles M thinks it is time to sell some stock which is now valued at $10,000 and has an adjusted cost base of only $2,000. He has also been thinking of making a $10,000 gift to charity. What is the real cost of giving the stock instead of selling it?*

Option 1 – Sell stock

Total gain	*$8,000*
Taxable gain 50% × $8,000)	*4,000*
Tax on gain (50% × 4,000)	*2,000*
Net after-tax proceeds ($10,000 – 2,000)	*$8,000*

Option 2 – Donate Stock

Tax credit (50% × $10,000)	*$5,000*
Total gain	*8,000*
Taxable gain 25% × $8,000)	*2,000*
Tax on gain (50% × $2,000)	*1,000*
Net tax savings ($5,000 – 1,000)	*$4,000*
Net cost of gift compared to sale ($8,000-4,000)	*$ 4,000*

It costs Charles only $4,000 to make a stock gift of $10,000. If he had given $10,000 cash and sold the stock, the gift would have cost him $5,000. That is because he would have paid $1,000 more tax on the capital gain.

2. **When you want to hold.**

Unlike Charles in the previous example, you may have a stock that you think has a great future. While you like the idea of exempting part of the gain from taxation, you do not want to lose out on likely future appreciation. Thus, you are more inclined to hold the stock and make this year's charitable gift with cash.

If you have such a stock, you might consider giving it and using the cash, which you otherwise would have given, to repurchase the stock on the market. Thereby, you would establish a stepped-up cost base in the stock, and when you sell it in the future, you will be taxed only on the gain accruing after the repurchase.

Consider this example:

Example: *A few years ago, Linda P purchased a high technology stock for $4,000. It is now worth $20,000, which is the amount she has been planning to contribute to a charity.*

Option 1 - Keep stock, give $20,000 cash to charity

Tax credit (50% × $20,000)	*$10,000*
Over the next five years the stock increases in value from $20,000 to $40,000; then she sells it.	
Total gain at time of sale	*36,000*
Taxable gain (50% × $36,000)	*18,000*
Tax on gain (50% × $18,000)	*9,000*
After-tax proceeds ($40,000 – 9,000)	*$31,000*

Option 2 - Donate stock, use cash to repurchase same number of shares

Tax credit (50% × $20,000)	*$10,000*
Total gain at time of donation	*16,000*
Taxable gain (25% × $16,000)	*4,000*
Tax on gain (50% × $4,000)	*2,000*
Total gain when repurchased shares are sold	*20,000*
Taxable gain 50% × $20,000)	*10,000*
Tax on gain (50% × 10,000)	*5,000*
Total tax on gain (2,000 + 5,000)	*7,000*
Net after-tax proceeds ($40,000 – 7,000)	*$33,000*

Through this procedure Linda reduces the total tax paid on the gain by $2,000. The primary disadvantage is payment of some of the tax five years earlier.

3. Bequest of Securities

The partial exemption from taxable gain applies to charitable bequests as well as to lifetime gifts. Thus, if you intend to make bequests to charity as well as to family members, it could be advantageous to fund your charitable bequest with appreciated, listed securities and your family bequests with other assets. You can do this either by making a specific bequest of certain securities, or by empowering your executor to select the assets for the charitable bequest.

Suppose, for example, that your estate consists of your principal residence, plus cash, plus $100,000 of listed stock with an adjusted cost base of $40,000, and that you want to leave $100,000 to charity and the balance to your children. If the stock goes to the children, $30,000 of the gain (50% × $60,000) will be taxed, but if it goes to charity only $15,000 (25% × $60,000) will be taxed. Better, then, to give the charity your stock and the children your cash and principal residence, neither of which is taxable.

Increased Contribution Limits

The maximum amount of charitable contributions made prior to the year of death that can be claimed for credit in any one year is 75 percent of net income. As recently as 1995, the contribution limit was only 20 percent of net income. It was raised in 1996 and again in 1997, and now is 75 percent, both for gifts to registered charities and to the Crown. Unused contributions can be carried forward for up to five years beyond the year of the gift. The contribution limit for gifts made in the year of death (including bequests) is 100 percent of net income reported on the terminal income tax return, with a one-year carryback.

For gifts of appreciated property of any kind, the contribution limit is 75 percent of net income (which includes taxable gain) plus 25 percent of the taxable gain. In other words, when you give an asset other than cash, you can use your donation receipt to the extent of 100 percent of taxable gain in the property plus 75 percent of income from other sources. The tax credit resulting from the usable amount of your donation receipt will normally exceed the tax on the gain, resulting in net tax savings. Previously, when the contribution limit was 20 percent, your tax on the gain might exceed your credit, and the only way to avoid a net cost in the year of the gift was to accept a reduced donation receipt.

Bottom Line
Now, when you give any kind of property, you will never have a tax cost, and you will almost always save taxes. Furthermore, for gifts of listed securities, those tax savings are bigger than ever.

For more information
If you are not a shareholder in a privately owned company, you may want to stop reading at the end of the next paragraph. The rest of the booklet is especially for owners of companies.

We encourage you to consult your financial advisor and lawyer to discuss the financial consequences applicable to your particular situation.

GIFTS OF PRIVATELY OWNED SHARES

You may be a community-minded entrepreneur inclined to make large charitable gifts. However, you have few assets other than shares in your family company. These shares could be common or preferred stock, and could be shares in either an operating or a holding company. Any major gift you make will have to be with these shares.

Possibly you hesitate to give shares to a public charity because you don't want to risk having the charity peer inside your company or try to sell shares to an outsider. The charity, likewise, may hesitate to accept such shares because there is no market for them and they pay no dividends. Often, these concerns can be allayed and a gift of private shares designed to the mutual satisfaction of the donor and the charity. The donor can retain voting control, and the charity can realize significant financial benefits – by eventually selling the shares to the company, other shareholders, or an external purchaser of the entire company and, perhaps, by receiving dividends in the meantime. The latter is more likely when the shares are preferred.

Our organization does welcome gifts of privately owned shares, and we would be pleased to discuss an appropriate gift arrangement with you and your advisors. Naturally, you will be interested in the tax implications of such gifts, which are summarized below.

Gift of privately owned shares to a public charity
(a charity such as ours that is not a private foundation)

When you give privately owned shares to a public charity, a donation receipt for the appraised fair market value of the shares is issued at the time of the gift, provided that you deal at arm's length with the charity and each of its directors and officers. Because the gift consists of privately owned, rather than listed securities, you will be taxed on 50 percent of the gain. However, your tax credit will almost always exceed the tax on the gain, resulting in net tax savings.

Example: *Howard R gives shares in his family business to a public charity. The shares have been appraised at $100,000, but his adjusted cost base is a mere $10,000.*

Tax credit (50% x $100,000)	*$50,000*
Total capital gain	*90,000*
Taxable gain 50% x $90,000)	*45,000*
Tax on gain (50% x $45,000)	*22,500*
Net tax savings ($50,000 – 22,500)	*$27,500*

Howard meets a philanthropic objective, saves taxes now, and reduces the total gain in his estate that will eventually be subject to tax. The charity receives an asset potentially worth $100,000 or more and may receive dividends in the meantime.

Gift of Privately Owned Shares to a Private Foundation
When you give privately owned shares to a private foundation, a donation receipt is allowed, not when the shares are transferred to the foundation, but when the foundation sells them. The amount of that donation receipt will be the lesser of the amount realized by the foundation and the appraised value of the shares at the time they were transferred to the foundation. If the charity does not sell the shares within five years, you will never get a donation receipt, nor will you be taxed on the gain. You will be taxed on 50 percent of the gain at the time any donation receipt is issued.

Clearly, gifts of privately owned shares have greater tax benefits when made to a public charity than when made to a private foundation. Still, such gifts could be appealing to donors who want the control afforded by a private foundation, who believe the shares will be sold within five years, and who are willing to postpone the tax credit.

GIFTS OF LISTED SECURITIES BY A PRIVATELY-OWNED COMPANY

Possibly, you have a holding company that has a portfolio of listed securities. If so, you may want to meet your philanthropic objectives by having your company contribute some of these securities. Gifts by corporations, as well as individuals, qualify for the one-half-of-taxable-gain exemption.

Example: *Holdco, a private company, contributes to a public charity listed securities having a fair market value of $100,000 and an adjusted cost base of $40,000. The company's annual income is $200,000, and its tax rate is 40%.*

Income before gift	*$200,000*
Taxable gain added to income (25% × $60,000)	*15,000*
Total income	*215,000*
Charitable deduction	*100,000*
Taxable income	*115,000*
Reduction in taxable income ($200,000 – 115,000)	*85,000*
Tax savings (40% × $85,000)	*$34,000*

Not only does the company reduce its taxes, but the shareholders also benefit. That is because the tax-free portion of any capital gain is credited to the company's capital dividend account and can be paid out to shareholders as a tax-free dividend.

When listed securities are donated to a public charity, 75% (100% - 25%) of capital gain is not taxed. Thus, the tax-free portion of gain in this instance is $45,000 (75% × $60,000 of total gain). The shareholders can receive this amount as a tax-free dividend. When the benefits to the company and shareholders are combined, gifts of listed securities by a holding company to a public charity can be quite attractive.

Note: The examples in this booklet assume that the combined federal and provincial tax rate and charitable tax credit are both 50 percent. These could be higher or lower depending on your financial circumstances and the province in which you reside.

To explore the options available for making a gift through securities, please call, write or e-mail us:

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