



Enhance the Tax Benefit of your Gift by Donating Depreciated Securities

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As the year-end approaches, you may be talking to your advisor about tax-loss selling strategies in your portfolio. At the same time, charities are in greater need than ever and looking for donations of cash or securities in-kind to help them fund their charitable work. This article looks at the opportunity for you to benefit from capital losses, while also donating funds to your own foundation which can make grants to any registered charity in Canada.

Donating securities in-kind

We often think about donating securities that are in a gain position to registered charities because of the exemption of the capital gain on the gift from taxation. Alternatively, if the security has depreciated in value, and that same security is donated in-kind to a registered charity, you can still benefit from the capital loss. Like any capital loss it must be applied first against any capital gains in 2008. And net capital loss in 2008 can then be applied against capital gains from the previous three years, or against capital gains realized in the future. The capital losses realized on gifting securities to a charity are usable for tax purposes, and are not exempted from tax in the way that capital gains are.

In addition to use of the capital loss, you will receive a charitable tax receipt for the donation which can be used to offset taxes in 2008 or carried forward to be applied against taxes in any of the following five years.

ESTABLISHING A CHARITABLE GIFT FUND IN 2008

If you intend to donate to charity in 2008, you may wish to consider establishing your own foundation through the RBC DS Charitable Gift Program. You can establish a foundation with a customized name (i.e. The Smith Family Foundation) and make annual donations to the foundation. The foundation then makes grants to a charity or charities of your choice in the name of your own foundation.

By allocating up to 30% of the donation as “spendable”, you can make a grant this year to a charity that is important to you. The non-spendable amount will be endowed in the foundation for a minimum of 10 years, during which time 4% of the investment earnings would be available for annual grants to a charity as recommended by you. These legislated limits ensure flexibility in timing the funding of registered charities from the foundation, and at the same time maximize the size of the charitable contribution receipt you receive in 2008.

SOMETHING TO FEEL GOOD ABOUT

Giving to charities can be difficult during times of market turmoil and uncertainty. If you are already discussing the benefits of tax-loss selling, consider the notion of making a donation at the same time. You will benefit from the capital loss, benefit from the charitable tax receipt, and also feel good about supporting a charity or charities that are important to you.

WHO TO CONTACT

For more information about the RBC DS Charitable Gift Program or about other tax loss selling strategies that you may wish to consider, please contact your investment advisor.

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