# Maximizing your charitable gift, while minimizing taxes

You are no longer subject to capital gains tax when you donate publicly traded securities to qualified charities. What's more, you are still fully entitled to receive a charitable donation tax receipt for the fair market value of the securities donated. As a result, donating securities to a charitable organization may produce a greater tax benefit than selling the shares first, and then donating the cash.

The following table illustrates the tax benefit of this approach:

| | Sell shares and donate cash | Donate shares directly |
|---|---|---|
| FMV of donation (a) | $100,000 | $100,000 |
| Adjusted cost base | 0 | 0 |
| Capital gain | $100,000 | 0 |
| Taxable capital gain | $ 50,000 | 0 |
| Tax on capital gain(b) | $ 23,000 | 0 |
| Donation tax credit (c) | $ 46,000 | $ 46,000 |
| **Total cost of donation = (a) + (b) - (c)** | **$ 77,000** | **$ 54,000** |

Assumes a marginal income tax rate of approximately 46% (varies by province).

Keeping this advantage in mind, there are additional ways to maximize the advantage of your gift. It is possible to calculate the required number of shares to donate that would exactly offset taxes paid on the total number of shares that you sell. In this case, there will be capital gains tax triggered by the sale of your shares, but that can be completely offset by the donation tax credit. With this approach, you can make a large charitable gift – and free up more funds for reinvestment than if you simply sold the shares and paid the tax.

### You should consider this strategy if:

- You have an investment position with large unrealized capital gains
- Wish to make a charitable gift
- Want to diversify your holdings
- You wish to reduce taxes

### KEY BENEFITS

- Reduce tax with capital gains tax exemption and donation tax credit
- Potentially give a larger charitable gift that costs you less

# Strategy in action

### The issue: large investment position with unrealized capital gains

In this example, assume you hold 10,000 shares of Mining Corp. with an adjusted cost base of $25 a share and a fair market value of $50 a share. You are in the top marginal tax rate of 46%. You also have a charitable desire to set up a foundation in memory of a family member.

### The strategy: donating some shares directly, while selling the rest

If you sell the shares you will receive $500,000, but will have a capital gain of $250,000, which will result in tax of $58,000, netting you $442,000. If you donate some of the shares directly to a charitable foundation and sell the rest, you can reduce your tax bill to zero and benefit your foundation at minimal cost.

If you donate 2,000 shares in-kind and sell the remaining 8,000 shares for cash proceeds, the donation tax credit will exactly offset the tax owing on the sale of the remaining 8,000 shares. This results in a generous donation to your foundation – with zero additional tax to pay.

### Option A: Sell shares and do not donate

| | |
|---|---|
| Sale proceeds | $ 500,000 |
| Adjusted cost base | $ (250,000) |
| Capital gain | $ 250,000 |
| Tax payable | $ (58,000) |
| **Proceeds for reinvestment** | **$ 442,000** |

### Option B: Donate in-kind only that portion of shares required to reduce tax to zero

| **Shares donated in-kind** | **2,000** |
|---|---|
| Market value of shares donated | $ 100,000 |
| Adjusted cost base | $ (50,000) |
| Capital gain | $ 50,000 |
| Tax payable on capital gain | $ - |
| Donation tax credit | $ 46,000 |

| **Shares sold** | **8,000** |
|---|---|
| Sale proceeds | $ 400,000 |
| Adjusted cost base | $ (200,000) |
| Capital gain | $ 200,000 |
| Tax payable on capital gain | $ (46,000) |
| Donation tax credit from shares donated | $ 46,000 |
| **Net tax payable** | **-** |

| | |
|---|---|
| **Proceeds for reinvestment** | **$ 400,000** |
| **Family foundation** | **$ 100,000** |
| **Total family assets** | **$ 500,000** |

**With this strategy, you end up with a $100,000 family foundation and $400,000 for reinvestment, compared to $442,000 if you had simply sold the shares and paid the $58,000 in tax.**

Other considerations: Further tax enhancements to the charitable gifting of securities can be realized through the donation of flow-thru shares and by making your stock donations from your corporation.

*For further information on these and other charitable gifting strategies, please contact your Investment Advisor.*

*Professional Wealth Management Since 1901*

RBC Dominion Securities