The Importance of Planned Giving and Gifting Shares

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Planned Giving Committee

I can understand that estate planning and planned giving may not be an attractive topic to most people due to the fact it is often associated with thoughts about our inevitable demise and departure from this life as we know it. I regard proper estate planning and planned giving as an opportunity and a right for all of us. Proper planning is not a concept only relevant for the wealthy or the elderly. I often encounter the comment, “I am not sure how this planning will ultimately benefit me.” I think this is a realistic and perhaps common perspective. Proper planning provides an opportunity for all of us to help ensure the efficient use of our hard-earned assets and income by reviewing options and alternatives with your financial team. Unfortunately, lack of proper planning can often result in excessive income taxes and in some cases, complete transfer of ownership of your assets to the government as opposed to loved ones or intended worthy causes. We are all likely aware of the current government deficit; however, I don’t think any of us are ready to contribute more to the government than we are already required to do. A proper plan should not be detrimental to your personal situation as a first priority. It will allow you to direct how your assets will be distributed. A proper estate plan should leave you with a feeling of comfort. Exercise your right by ensuring you have a Will in place that expresses the intended distribution of your estate assets.

Gift of shares

A gift of shares is one strategy to consider as a component of your planning. In 2006, the federal government changed tax legislation on publicly traded shares to stimulate charitable giving. Following this change, a gift of shares will result in a donation receipt for the fair market value of the shares donated while the unrealized gain (fair market value in excess of historical purchase price) will not be subject to capital gains tax. At the top marginal tax rate, this can save taxpayers in Ontario up to 46% in taxes. 100% of the value is transferred to the charitable organization in the form of shares without the government first taking their cut on income taxes. Therefore, if you have unrealized gains on shares and you are considering a gift, a donation of shares can be a more tax efficient approach compared to a cash donation. In other words, this can be a win-win situation for the donor and the charitable organization.

Benefits to the Donor

- Gift receipt for fair market value (FMV) of shares/units on date of ownership transfer
- No tax on realized capital gain
- Tax credits fully available to offset tax on other income
- Recognition benefits offered by the Foundation for gifts made
- Satisfaction of knowing gift is "at work"

Example

A Gift of $ 25,000 in Stock to NHH Foundation

Mr. Smith owns a portfolio of publicly listed, blue chip stocks including 1000 shares of *XYZ Industries,* bought years ago at $10 per share. The shares are currently valued at $50 per share. Mr. Smith wants to make a gift of $ 25,000 to the Foundation and wonders whether he should sell **500 shares** of the stock and donate the proceeds, or simply give the stock. Assume a 46% combined marginal tax rate, and a 46% combined tax savings resulting from the credit.

Tax on Gain	**Sale**	**Gift**
Capital Gain Recognized ($25,000 - $ 5,000)	$20,000	**$ 0**
Taxable Gain if sold ($20,000 x 50%)	10,000	-
Taxable Gain when donated	-	$ 0
Tax Owing on Gain (46% marginal rate)	**$ 4,600**	Nil
Tax Credit		
Donation Receipt Value	$25,000	$25,000
Combined Tax Credit ($25,000 x 46%)	11,500	11,500
Net Tax Savings		
Combined Tax Credit	$11,500	$11,500
Tax Owing on Gain	- 4,600	0
Net Tax Savings	**$ 6,900**	**$11,500**

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