



# TD Economics

## Special Report

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### DONATING SHARES TO CANADIAN CHARITIES ABOUT TO BECOME HIGHLY ATTRACTIVE

In its election platform document, the Conservative Party pledged to “remove the capital gains tax on listed stocks donated to charities”. The Conservative Government will likely move on this measure in its first budget because it will be supported by all opposition parties. Proponents of the measure have argued that donations of stocks could rise by 50 per cent in response. TD Economics believes that once people understand how attractive the measure is the impact will be much greater.

The Conservative Government will likely introduce the incentive to charitable giving as a modification of a measure first implemented in 1997. On a temporary basis, individuals and corporations donating publicly traded securities to public charities were required to include in income for tax purposes only one-half the amount of capital

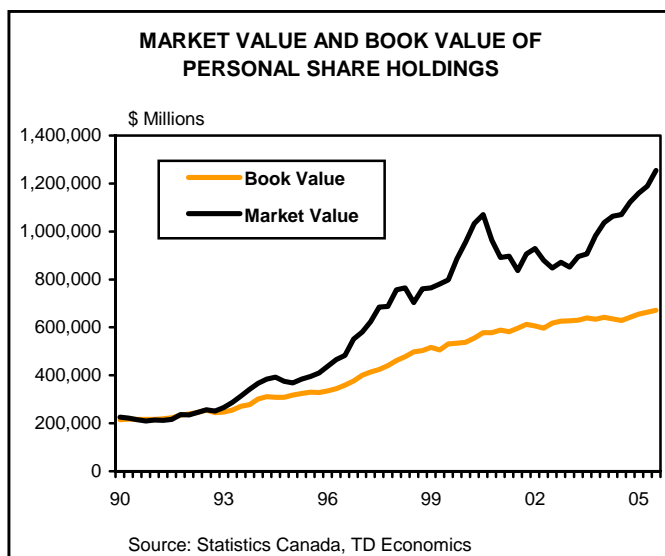
CHARITABLE DONATIONS OF PUBLICLY TRADED SECURITIES					
	Total Donations		Donations of Publicly Traded Securities To Public Charities		Securities as % of Total Donations (%)
	Amount (\$ millions)	Growth (%)	Amount (\$ millions)	Growth (%)	
1997	4,316.0	--	69.1	--	1.6
1998	4,753.0	10.1	83.3	20.6	1.8
1999	4,946.0	4.1	135.7	62.9	2.7
2000*	5,076.0	2.6	200.3	47.6	3.9

\*Projection by Department of Finance.

gains realized on the donation that they would include for other capital gains. The measure was then made permanent in 2001. As the general capital gains inclusion rate is 50 per cent, the existing incentives means that on donations of stocks, tax need only be paid on 25 per cent of the gain.

From 1997 to 2000, gifts of publicly traded securities to public charities soared from \$69.1 million to \$200.3 million. With a much more modest rise in overall gifts, the share of securities in total donations rose from 1.6 to 3.9 per cent. The \$200.3 million of security gifts pales against the \$1.3 trillion market value of stocks held by Canadians. Unrealized capital gains account for almost half of these holdings. Exempting capital gains from taxation should unlock more of these security holdings and also cause a further shift in the distribution of donations away from cash toward stocks.

The table below shows the cost to the donor and to taxpayers of charitable contributions made through cash and public traded securities. This methodology was de-



veloped by Finance Canada to assess the impact of the original 1997 incentive for securities.

The table illustrates that for a cash donation, the donor bears 54 per cent of the cost and taxpayers shoulder the remaining 46 per cent. Under the current regime, the donor's contribution for a gift of securities is 47 per cent. With the Conservative's proposal, the cost to the donor would only be 40 per cent of the total gift with other taxpayers picking up the tab for the remaining 60 per cent. This seems like too good a deal for Canadians not to respond to in a major way. First, if there is an option, it is much more cost effective to donate securities rather than cash. Second, total giving should increase greatly. The donor gets to determine where the money goes (provided it is a registered, public charity) yet pays well less than half the cost. In the illustration used by Finance, under the Conservative proposal the donor actually makes money on the gift relative to the amount originally invested. The original investment was \$40 but the contributor ends up with a \$46 tax credit. TD Economics believes that many Canadians will not want to pass on such a deal and for that

<b>TAX ASSISTANCE FOR CHARITABLE DONATIONS BY INDIVIDUALS</b>			
<b>Of Cash Compared to Donations of Publicly Traded Securities</b>			
	Type of Donation		
	Cash	Publicly Traded Securities Donated to Public Charities	
		Current Regime	Conservative Proposal
Fair Market Value of Donation	\$100.00	\$100.00	\$100.00
Top Marginal Tax Rate	46%	46%	46%
Value of Charitable Donations Credit (A)	\$46.00	\$46.00	\$46.00
Typical Cost Base of Security		\$40.00	\$40.00
Capital Gain on Security		\$60.00	\$60.00
Capital Gain Tax if Sold, not Donated		\$14.00	\$14.00
Tax Saved Due to Incentive (B)		\$7.00	\$14.00
Total Tax Assistance (A+B)	\$46.00	\$53.00	\$60.00
Cost of Donation to Donor	\$54.00	\$47.00	\$40.00

Source: Department of Finance

reason believes that if the measure becomes well understood, it will result in an important increase in charitable giving.

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