



TD Economics

Special Report

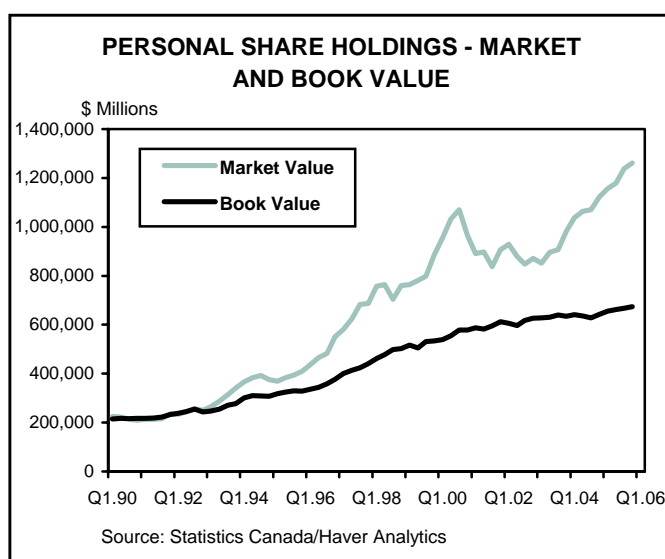
May 24, 2006

GOOD NEWS FOR DONORS TO CHARITIES

Federal Budget Makes Donating to Charities More Attractive

The May 2, 2006 federal budget made it more attractive to make donations to charities. Effective budget day, donations of publicly listed securities to public charities will be exempted from capital gains taxation. This further improves the tax treatment of donations of securities relative to the regime that had been in place in 1997 whereby 25 per cent of the capital gains on such gifts was taxed. Qualifying charitable donations of listed publicly-traded securities acquired with employee stock options will also effectively be exempt from capital gains taxation.

The following example illustrates how attractive the budget has made giving securities to public charities. Suppose a donor purchased a stock at \$400 and chose to donate it to a charity when it reached \$1000. Without any



Tax Assistance for Charitable Donations by Individuals		
Stock Purchased at \$400 and Donated at \$1000		
	Cash	Stock Donation
Amount of Donation	1000	1000
Charitable Tax Credit		
Federal	290	290
Provincial	170	170
Total	460	460
Value of Capital Gains Exemption	--	140*
Total Tax Assistance	460	600
Donor's Share of the Cost of the Donation	540	400
Implicit Share of Other Taxpayers	460	600
Donor's "profit" relative to initial investment	--	60**
*One-half inclusion of the \$600 appreciation taxed at a federal-provincial rate of 46.7 per cent;		
**\$460 of tax credits less the initial stock purchase of \$400		

special tax treatment, the donor would pay \$140 of capital gains taxes to the federal and provincial governments on the \$600 dollar appreciation (derived as the normal 50 per cent capital gains inclusion at a combined federal-provincial tax rate of 46 per cent). Due to the budget measure, the donor will not pay any capital gains tax. Further, the donor will receive a \$290 federal tax credit and a \$170 provincial tax credit for a total of \$460 of total credits. The total tax credits actually exceed the donor's original investment by \$60, so a profit has been made relative to the initial outlay.

In the above example, the donor's effective share of the \$1000 donation is only \$400. The other \$600 (being the \$460 of tax credits plus the loss of the \$140 of capital gains taxation) is provided by the federal or provincial governments - or putting it more accurately, by other Canadians who pay taxes to the federal and provincial gov-

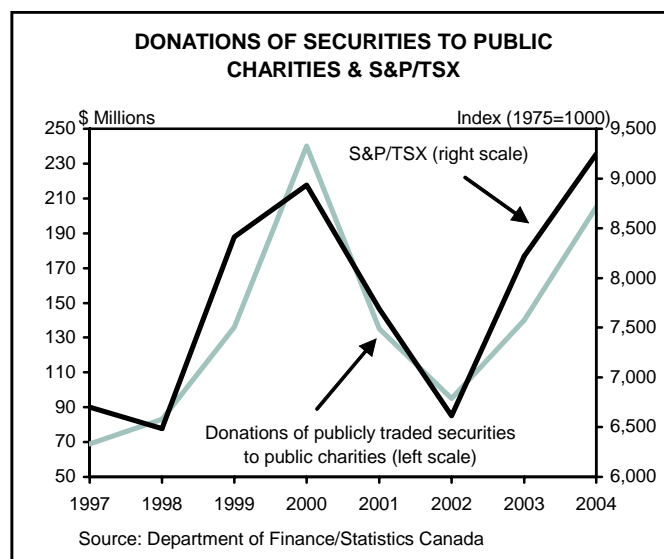
ernments. In effect, the donor has been able to leverage the initial outlay of \$400 into a \$1000 gift to the charity of the donor's choice.

Charitable giving should rise in response to the budget measure

The budget assumes that donations of securities to charities will rise from \$200 million to \$300 million per year as a result of this measure. Considering that the market value of securities held by Canadians is \$1.3 trillion and that securities now comprise only 3 per cent of the roughly \$7 billion given each year to charities, the potential for this measure to encourage more stock giving seems much larger. The key will be ensuring that all potential donors become aware of how attractive the measure is. Recent experience also suggests stock donations will fluctuate with the stock market. Donations of securities soared from \$69 million in 1997 when the partial elimination of capital gains taxation was introduced to \$240 million in 2000. But as the market faded, stock donations subsequently dropped to only \$95 million in 2002 before recovering as markets revived.

CHARITABLE DONATIONS OF PUBLICLY TRADED SECURITIES			
	Total Donations	Donations of Publicly Traded Securities To Public Charities	Securities as % of Total Donations
	Amount (\$ millions)	Amount (\$ millions)	(%)
1997	4,273.1	69.0	1.6
1998	4,641.5	83.0	1.8
1999	4,847.7	136.0	2.8
2000	5,438.7	240.0	4.4
2001	5,514.4	135.0	2.4
2002	5,847.1	95.0	1.6
2003	6,513.0	140.0	2.1
2004	6,922.6	205.0	3.0

Source: Department of Finance/Statistics Canada



The budget measure bolsters the case for individuals to plan their charitable giving

The budget measure will likely spur many Canadians in the coming months to donate a portion of their existing stock holdings in order to support the charity of their choice. But the measure should also make Canadians aware that a bit of planning can make their precious after-tax dollars go further in supporting their longer-run intentions to support charities. If you own securities that have appreciated in value, you may wish to donate these securities rather than cash as this will likely lower your after-tax cost. More fundamentally, you may wish to establish a share ownership plan as part of a lifetime commitment to charitable giving. Under such a plan, shares could be purchased now with an eye toward donating them to charities in future, knowing that such a gift will no longer attract capital gains taxation.

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