Perfect Your Portfolio, Make a Gift

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Let's examine how your gift to Queen's can help to optimize your portfolio.

If you are a Canadian resident for tax purposes, and if you are in the fortunate position of having appreciated stocks in your portfolio, you may be dreading the thought of selling the positions and facing a tax bill. Currently, 50% of the capital gain must be included in taxable income.

Fortunately, there is a provision in the Income Tax Act that might take the sting out of the prospect of disposing of the investment. The rule states that when a taxpayer donates publicly traded securities to a qualified charitable organization, the capital gain on the donated securities would not be subject to tax. In addition, the taxpayer would receive a charitable donation tax receipt equal to the fair market value of the securities that were donated.

CASE STUDY #1 – INDIVIDUAL DONATION

Let's assume an individual has a particular stock in their non-registered portfolio that was purchased for $50,000 and that it has now appreciated in value to $100,000. The individual is currently in the top tax bracket and their marginal rate is 50%.

If the individual sold the shares in the market, the following would be the tax result:

	Sell All Securities
Proceeds of Disposition	$100,000
Adjusted Cost Base	$50,000
Capital Gain	$50,000
Taxable Capital Gain[1]	$25,000
Personal Tax on Gain[2]	$12,500

1 50% of capital gain included in income.

2 50% marginal tax rate.

> "…the optimized donation strategy reduces the after-tax proceeds… however, instead of writing a cheque to the government for taxes…a donation is made to Queen's University."

The Strategy

Knowing that a capital gain on shares donated will not be subject to capital gains tax and that a charitable donation tax credit will be available for the fair market value of the shares donated, the individual can calculate the optimal amount of shares that they should donate in order to generate a tax refund that would completely offset the tax owing on the capital gain from the rest of the shares that are sold in the market.

	Sell Some Securities	Donate Some Securities
Proceeds of Disposition	$80,000	$20,000
Adjusted Cost Base	$40,000	$10,000
Capital Gain	$40,000	$10,000
Taxable Capital Gain[1]	$20,000	—
Personal Tax on Gain[2]	$10,000	—
Donation to Queen's University	—	$20,000
Donation Tax Credit[2]	—	($10,000)

Conclusion

Based on the facts of this situation, the optimized donation strategy reduces the after-tax proceeds retained by $7,500; however, instead of writing a cheque to the government for taxes of $12,500, the individual has made a donation of $20,000 to Queen's University. Note that this donation can be directed to any faculty, program or project at Queen's.

	Sell All Securities	Sell Some / Donate Some Securities
Cash to/(from) Donor	$87,500	$80,000
Cash to/(from) Queen's University	—	$20,000
Cash to/(from) Canada Revenue Agency	$12,500	—

It is also important to note that by using this strategy, the individual's out of pocket cost of $7,500 to make the donation to Queen's University is significantly better than the situation where the individual makes a cash donation. Assuming the highest marginal tax rate is 50%, ordinarily the individual would be out of pocket $10,000 to make a cash donation of $20,000. As a result, the individual has reduced their cost of making a donation by $2,500 or 12.5%.

> "By using the optimized donation strategy, the individual's out of pocket cost to make the donation is significantly less than the situation where the individual makes a cash donation."

1 50% of capital gain included in income for shares sold. 0% of capital gain included in income for shares donated.

2 50% marginal tax rate.

CASE STUDY #2 – CORPORATE DONATION

For some individuals, their marketable security portfolio is held within a corporation. Using the same facts as above, and assuming the corporate tax rate is 50%, if the corporation sold the securities in the market, the following would be the tax result:

	Sell All Securities
Proceeds of Disposition	$100,000
Adjusted Cost Base	$50,000
Capital Gain	$50,000
Taxable Capital Gain[1]	$25,000
Corporate Tax on Gain[2]	$12,500
Capital Dividend Account[3]	$25,000

The Strategy

Similar to the individual strategy, the corporation can calculate the optimal amount of shares that it should donate in order to generate a tax refund that would completely offset the tax owing on the capital gain from the rest of the shares that are sold in the market.

	Sell Some Securities	Donate Some Securities
Proceeds of Disposition	$80,000	$20,000
Adjusted Cost Base	$40,000	$10,000
Capital Gain	$40,000	$10,000
Taxable Capital Gain[4]	$20,000	—
Corporate Tax on Gain[2]	$10,000	—
Donation to Queen's University	—	$20,000
Corporate Tax on Donation Deduction[2]	—	($10,000)
Capital Dividend Account[3]	$20,000	$10,000

1 50% of capital gain included in income.

2 50% corporate tax rate.

3 Represents the non-taxable portion of the capital gain. The balance in this notional account can be used to pay a tax-free dividend to a Canadian resident shareholder.

4 50% of capital gain included in income for shares sold. 0% of capital gain included in income for shares donated.

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Conclusion

With the corporate tax rate in this example being similar to the highest personal marginal tax rate, the end result is the same - the optimized donation strategy reduces the after-tax proceeds retained in the corporation by $7,500 and it redirects the funds to Queen's University.

	Sell All Securities	Sell Some / Donate Some Securities
Cash to/(from) Donor	$87,500	$80,000
Cash to/(from) Queen's University	-	$20,000
Cash to/(from) Canada Revenue Agency	$12,500	-
Capital Dividend Account Balance	$25,000	$30,000

The significant difference in the corporate optimization scenario is that the strategy also increases the company's capital dividend account balance. As a result, the company can pay an additional $5,000 tax-free dividend to its Canadian resident shareholders (assuming the highest marginal tax rate on dividend income is 45%, this results in additional tax savings of $2,250 [= $5,000 * 45%]).

"The significant difference in the corporate optimization scenario is that the strategy also increases the company's capital dividend account balance."

Relative to the corporation donating $20,000 of cash directly, this strategy reduces the company's cost of making the donation by $2,500 or 12.5%.

Your professional advisors can help you arrange any new donations, whether during your lifetime or through your estate. Queen's Gift Planning professionals can work with you and your advisors to ensure that your donation can be accepted and used as intended. You and your broker can electronically transfer your gifts of securities into the Queen's account by using the Gift of Securities Form. Please contact our Gift Services Office at gifts@queensu.ca or 1-800-267-7837 (toll-free in Canada and the US) or 613-533-2060 to request our Gift of Securities Form.

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