FOUNDATION

for Niagara & Hamilton area Christian Schools

Gifts of Appreciated Securities

and other gifts subject to capital gains

The Federal Budget of February 18, 1997 reduced the income inclusion rate on capital gains arising from certain donations by individuals or corporations to charities to 50% of the normal inclusion rate. Donations that are eligible are those of securities such as shares, bonds, T-bill, warrants, and futures that are listed on a prescribed stock exchange. Prescribed stock exchanges are listed in the Income Tax Regulations and include the main Canadian stock exchanges (Montreal, Toronto, and CDNX) and a number of foreign stock exchanges. Most Segregated Funds and Mutual Fund units also qualify as appreciated securities.

While the government originally included a sunset clause, causing the provision to expire after 5 years, the provision was made permanent at the end of 2001. This provision results in a significant benefit to Christian school supporters who choose to give these listed securities directly to the *Foundation* instead of liquidating them and donating the proceeds.

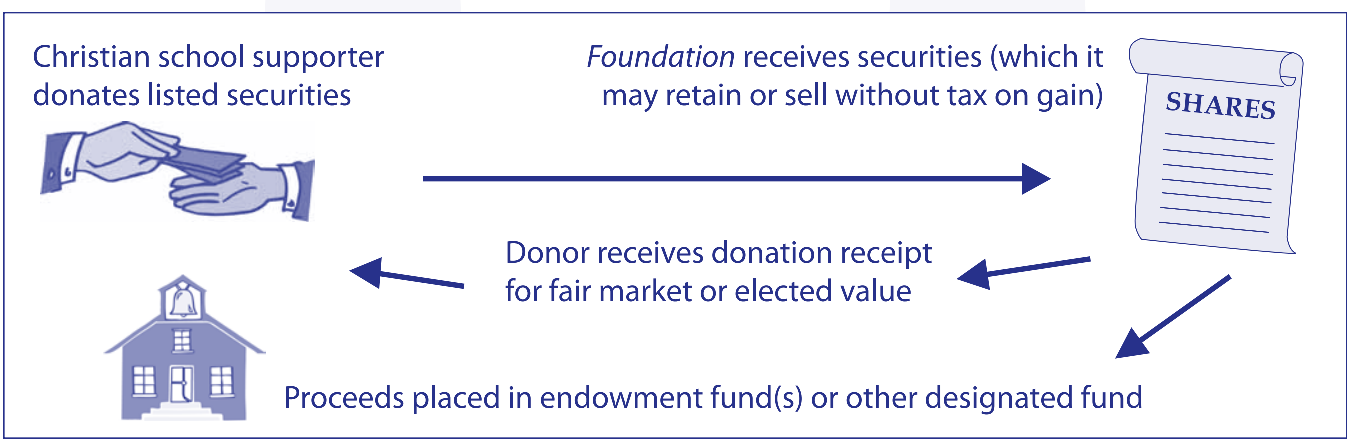
The May 2006 Federal Budget has made gifting Appreciated Securities even more attractive by totally eliminating the capital gains tax.

In all cases, the capital gains tax resulting from a planned sale is eliminated and tax on other, regular income is reduced significantly as a result of the donation receipt. Donors are able to give such gifts both during their lifetime and through their estate (*will*) - depending on their circumstances and needs.

Features of Gifts of Appreciated Securities

- donation receipt received for 100% of FMV (fair market value) of securities
- irrevocable gift with excellent tax incentives
- complete elimination of all taxable captial gains

For most securities, fair market value = closing price on the date of the gift.



Normally, securities may be transferred to a charity in either of the following ways:

- The donor delivers endorsed certificates to the charity. The gift is complete the day the certificate is delivered.
- The donor transfers the securities from his/her brokerage account to the Charity's. The gift is complete when the securities are redeemed.

What are the tax incentives?

- None of the capital gain is taxable when appreciated securities are donated – a 100% reduction
- donation limit of 100% of income in the year of death and year prior to death
- ability to elect a lower value than market value for donation receipt
- ability to carry unused donation receipts forward for 5 years

Other ways to save on capital gains!

Normally, when a taxpayer disposes of regular capital property (other than listed securities) by gift or bequest to anyone other than his spouse, he/she is deemed to have disposed of the property at fair market value, and thus, he/she could realize a taxable capital gain if the property has appreciated in value above its adjusted cost base. This deemed disposition also applies to charitable donations.

The net income limit for charitable gifts is 75%. The Income Tax Act increases this limit by 25% of any taxable gain arising from the donation of appreciated capital property, to continue to ensure that any tax liability arising from the donation of the capital property can be offset by tax credits in the year of the donation.

It is advisable to thoroughly review your options before acting on good intentions as there are a number of innovative ways to structure such a gift. In many cases, a tax and legal advisor should also be consulted. We are very willing to help get the process started!

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