

A gift of shares reaps dividends

Despite stock market changes, your gift can benefit the Lord's work

by Allen Schellenberg

People give monetary donations to the church, for a number of reasons. Primarily it's for the pure joy of giving back to God a portion of His monetary gifts. Unlike the secular world, gifts of money, property, or shares to the church are often given anonymously; there is no adulation, congratulations, and unfortunately, often no "thank you's." People give for the pure joy of giving. Nonetheless, the Government of Canada acknowledges such gifts by extending various tax credits, and there is nothing wrong with using the laws of our country to maximize the available tax reduction benefit of your donation.

Many people have taken advantage of a 2006 tax rule that removed capital gains tax on publicly traded securities (shares), when they are donated to a listed charitable organization, including a favourite area of the Lord's work within the church. Rather than donating cash from selling the shares, they've used this tax saving opportunity to donate the shares directly, especially when the shares have increased in value. This type of donation negates a capital gain and therefore there is no tax payable against those gains.

Is there still an advantage to donating shares when the market is down? Absolutely not! But what happens if you sell the shares first?

If you desire to make a donation, *and* you have shares that have decreased in value, it may be to your advantage to first sell those shares, take a capital loss on the sale, and then make the donation from the proceeds. If you experienced capital gains over the last few years, taking a loss today would allow you to either apply the loss to those previous



gains; use them to reduce current income; or carry them forward to off-set future gains. Additionally, you would still claim the 40 percent non-refundable tax credit on the actual donation, further reducing your tax payment.

Here is how it works. If a \$1000 investment increased in value by 50 percent to \$1500, you may donate the shares and receive a non-refundable tax credit of \$600, with no capital gain. But, if that same investment of \$1000 decreased in value by 50 percent, to \$500, sell the shares, then make the donation from the proceeds. In this way you receive a non-refundable tax credit of \$200 on the donation, plus reduce your income by one-half of the capital loss—a further \$100 tax saving which means a net tax reduction benefit of \$300.

As you can see, in proportion to the actual donation, your net benefit will always be higher if you take a capital loss, as you're realizing a tax

reduction from both the donation and the capital loss.

When you consider your estate planning, you should consider how Revenue Canada treats shares belonging to a deceased person's estate. The value of shares forming part of an estate from which the government calculates estate tax is based on the market value one day prior to the deceased's death, regardless of when, or at what price they may be sold following the person's death.

In volatile markets this could have a serious impact on the estate tax payable relative to the value of the shares when they are sold. You can avoid this potential problem by having the shares in joint ownership. This allows the asset to bypass probate and ownership automatically reverts to surviving joint owner(s).

You should speak to your professional financial advisor before taking any actions. Your investments and/or your provincial regulations may impact the validity of this information.

Lutheran Foundation Canada (LFC) Gift Coordinators are in your area to help you and your congregation look at estate planning or financial planning. Additionally, an LFC Gift Coordinator can share information about the various donation opportunities available, and assist you in making a donation to the ministry of your choice. See Lutheran Foundation Canada's web site, at www.lutheranfoundation.ca or call 1-866-588-4422.

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