



## Stretching Your Donation Dollars to the Maximum

By Frank Arnold, BSc, CFP

So you've decided you want make a donation to help the Salt Spring Island Conservancy preserve critical natural habitats on the island. First, *thank you!* Now, what if there were fairly simple strategies available that would help you boost the dollars received by the Conservancy for fewer dollars out of your pocket? If this sounds too good to be true, I can assure you it's not.

There are several options when it comes to making donations to the Conservancy. The most straight-forward is simply writing a cheque. Keep in mind that as with any donation, you get the biggest tax credit (about 44% of the donation) when your annual donations total \$200 or more. While cheque-writing is undoubtedly the simplest donation method, it may not be the best. The most common alternative to giving cash is giving securities or other property. By securities, I mean publicly-traded investments, like stocks, mutual funds or income trusts (more on the special case of income trusts below). Property can be real estate, art or capital assets. Of these, giving securities is the most common, and for good reason: the donor receives the full tax credit for the donation, but avoids all the capital gains tax. Let's look at an example.

Say you are in a position to donate some stocks valued at \$10,000, for which you originally paid \$3,000. Let's also assume you are in the middle tax bracket in BC, about 30%, which means your income is roughly between \$40,000 and \$70,000. If you sold the stocks, you would have to pay tax of about \$1,050 on the capital gain. By donating the stocks, you'll save this capital gains tax as shown in the following table.

Original cost of shares = \$3,000 Value at donation = \$10,000 Marginal tax rate of 30%.	<b>Sell Shares &amp; Donate Cash</b>	<b>Donate Shares</b>
Donation	\$ 10,000	\$ 10,000
Charitable Tax Credit	\$ 4,400	\$ 4,400
Capital Gains Tax	\$ 1,050	0
After-tax Cost of Donation	\$ 6,650	\$ 5,600
Advantage of Donating (\$)		\$ 1,050
Advantage of Donating (%)		19%

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The example shows that if you donate cash but keep any shares with embedded capital gains, the after-tax cost is *19% higher*. The donor is effectively giving up on more than \$1,000 in tax savings. Conversely, you could donate 19%, or \$1,900 more to a charity *for the same out of pocket cost*. You may feel that you already have enough cash in a bank account to make a donation now without having to sell any investments, or maybe you *want* to keep holding shares because you believe they are a good investment. That may be true, but it misses the point – cue the “death and taxes” mantra – eventually all shares will be sold, and eventually tax will be paid on any that are worth more than their original cost. A better solution in this case is still to donate the securities to reduce your current *or future* capital gains tax. If you still want to own the shares, you can buy them back with a current (higher) cost price which will mean less tax when the shares are eventually sold. The SSI Conservancy now has a brokerage account with which to receive stocks, bonds and other securities, so if you are considering such a donation, contact the SSI Conservancy office: 250-538-0318 or [ssic@saltspringconservancy.ca](mailto:ssic@saltspringconservancy.ca)

The notion of donating securities should be of particular interest to holders of income trusts, *especially in 2010*. Income trusts are securities that pay out large amounts of income, usually with some or all of it being classed as “return of capital”. You don’t need to worry about the mechanics of “return of capital”, except to know that it reduces your cost price over time, which means a lower tax bill for as long as you have held it, but a higher tax bill when you sell it. Of specific concern to income trust holders should be that 2010 marks the final year before trusts are subject to a rather punitive tax by the federal government. As such, all remaining income trusts are in the process of merging, converting to corporations, or going private. This means a lot of capital gains will be triggered this year, which can of course be avoided by donating the trust units *before they restructure*.

Another common strategy involves old life insurance policies. Many people, who set up life insurance policies in the past, find that their situation has changed and they no longer require the insurance. For example, let's say you bought a life insurance policy years ago when your children were young because you wanted to be covered in case something happened to you or your spouse. Years have passed, the kids are now grown up, and you don't have any major need for the insurance coverage. And yet, the policy is still valuable, either now or in the future. If you don't need the life insurance personally, why not assign it to the Conservancy. This can involve either transferring ownership of the policy, or simply changing the beneficiary, and you'll receive a substantial tax credit for doing so.

The above giving strategies require a little more planning than simply writing a cheque, but don't let that dissuade you. I touched on the most common, but other avenues are open as well. You don't need to be a tax expert to make use of these - just be aware that there are options out there when it comes to charitable giving. Of course, prudently speaking, the other major consideration is determining how much you are in a position to give. As such, before making any major donation, it is recommended you talk to your financial advisor.

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