

# The Bottom Line

A "quick-read" for estate planning professionals from the JCF Professional Advisory Committee

May 2, 2006

## Update on.... Capital Gains and the Budget

The federal budget proposes to eliminate any taxation on gains on marketable securities gifted to public charities for gifts made from May 2, 2006 on.

### Some calculations....

Assume Mr. A wishes to make a \$10,000 gift and owns securities worth \$10,000 with an ACB of \$2,000. (48% tax rate)

#### Option 1- Sell the securities, gift the proceeds

- Taxable capital gain  $(\$10,000 - \$2,000) \times 50\% = \$4,000$  - tax at 48% \$1,920
- Tax saving of charitable receipt  $(\$10,000 \times 48\%)$  \$4,800
- Net tax savings \$2,880

#### Option 2- Gift the shares

- Tax savings of receipt \$4,800

**The bottom line:** Option 2 is \$1,920 better

*Note that* corporations obtain the same result.

*What is really interesting* is the creation of a full capital dividend account.

*In the example above* the untaxed gain (\$8,000) would enter the CDA account and therefore the shareholders can remove \$8,000 of surplus without personal tax.

*Caveats- We* must await proposed legislation to see final application... and Quebec must agree to obtain the same benefits for Quebec tax (although the federal capital dividend account will apply for Quebec purposes).