

Canadian Tax Planners Newsletter

July/August 2006

In this edition of the Canadian Tax Planner, we shall examine two tax planning issues resulting from the recent federal budget and review tips and traps related to income splitting to minimize the total tax paid by a family.

Tax Issues arising from the Federal Budget

The recent federal budget contained tax savings for most Canadians through a number of modest income tax cuts and a reduction of the GST rate from 7% to 6%. We shall review the following issues from the budget:

- 1) the elimination of capital gains on securities donated to charities has resulted in a significant tax planning opportunity for both individuals and charities; and
- 2) the Conservatives campaigned on a promise to eliminate capital gains if the proceeds were re-invested in other capital property. This budget was silent on this proposal

Donation of Securities to Charities - Prior to the budget, the regular inclusion rate for capital gains was 50%. However, if a security was donated to a charity, only 25% of the capital gain was included in income. Effective May 2, 2006, donations of publicly listed securities that are donated to charitable organizations or public foundations will have the former 25% inclusion rate reduced to zero. This provision also applies to gifts of ecologically sensitive land.

.....
The Canadian Tax Planners Newsletter may not be copied or reproduced in any form without the expressed written consent of Canadian Tax Planners Limited, 30 Mapleton Place, London Ontario N6K 4A5 Copyrighted © Canadian Tax Planners 2006. Every effort has been made to ensure accuracy, but since comments are of a general nature, specific advice should be obtained from your professional advisor. Canadian Publications Mail Product Sales Agreement #0483079. Annual subscription cost - \$80.00. Date of issue July 2006. The Canadian Tax Planners is published six times per year in January, March, May, July, September and November.

Proceeds of disposition	\$200,000
Adjusted Cost Base of the shares	\$100,000
Capital gain	\$100,000
Value of shares donated to a charity	\$ 40,000
Individual's marginal tax bracket	46%

In our first calculation, assume the taxpayer did not make a donation of the shares to a charity. As a result, the tax liability would be:

Capital Gain	\$100,000
Taxable Capital Gain	\$ 50,000
Tax @ 46%	\$ 23,000

In our second example, the taxpayer donated \$40,000 of stock to a charity and kept the proceeds of the remaining \$160,000 for himself. In this scenario, the tax liability would be:

Disposition of \$160,000

Capital Gain	\$80,000
Taxable Capital Gain	\$40,000
Tax @ 46%	\$18,400

Donation of stock valued at \$40,000 to a charity

Tax on Capital Gain of \$20,000	nil
Value of donation tax credit \$40,000 X 46%	\$18,400

Thus, the tax credit resulting from the donation of the shares eliminates the tax on the capital gain. The following chart compares the after tax position of keeping the entire proceeds from the sale vs. donating a portion of the shares to a charity:

Note - The remainder of this article is only available to subscribers of the Canadian Tax Planners Newsletter. If you elect to subscribe and wish to receive a copy of this newsletter, advise us accordingly and the complete article will be forwarded by return mail.

