

FAQ: In-Kind Donations of Stocks, Bonds & Mutual Funds

Why should I donate publicly traded securities?

If you own publicly traded securities that have increased in value since you purchased them, using them to make your charitable donations is the most tax effective way to give. If you sell the securities you will pay tax on 50% of the capital gain. If you donate the securities “In- Kind”, you will pay no tax on the capital gain, and you will receive a charitable receipt for the market value of the securities on the day you initiate the transfer to Mennonite Foundation of Canada.

What is a publicly traded security?

A publicly traded security is a stock or bond that trades on a stock exchange recognized by Canada Revenue Agency. Mutual funds do not trade on stock exchanges but are also considered publicly traded securities.

Which stock exchanges are recognized by CRA?

In Canada, this would be the TSX & TSX Venture exchanges. In the U.S., the New York stock exchange, the AMEX as well as the NASDAQ are recognized by CRA. Many foreign country exchanges also qualify. If you have a security that is trading on an exchange outside of North America, give MFC a call and we will be able to find out if it qualifies.

What does “In- Kind” mean?

This means that you do not sell the security and transfer cash to MFC, but rather your securities are transferred to MFC’s brokerage account and then MFC sells them. If you sell them first you will pay tax on 50% of the capital gain.

Which securities should I donate?

You can only donate securities that are held in a non-registered investment account. Investments held in a registered account (RRSP or RRIF) do not qualify for these tax savings.

Capital gains on investments held in a tax free savings account are already tax exempt, so donating these investments will not generate the same tax savings as donating securities held in a taxable investment account.

Always donate the stocks, bonds or mutual funds with the greatest capital gain because this will save you the most tax.

Why wouldn’t I donate the securities directly to the charities I want to benefit?

Many charities don’t have brokerage accounts or the expertise to process in-kind donations.

MFC will process the donation of securities, sell them and disburse the proceeds to the registered Canadian charities you choose. You can disburse the proceeds immediately or over a period years. This works well if you want to receive the tax benefit in one year but fulfill a longer term pledge such as a building project at your church.

Even if one of the charities to which you want to donate is willing and able to process in-kind donations, using MFC means that with one transaction you can distribute the proceeds to multiple charities. You do not need to do separate security transfers with each charity you want to benefit. This means less paperwork and hassle for you. At tax time you only have one donation receipt to process and that one donation has benefited multiple charities. Also, your financial advisor will only have one transfer request to process, not multiple transfers.

Who issues the receipt?

MFC is a registered Canadian charitable foundation and will issue the donation receipt.

How will the charity know that the donation came from me? I don't want them to think that I no longer support them.

MFC will send a letter along with the cheque to the charity informing them that the donation came from you. We tell them not to send a charitable receipt (because you will already have received one from MFC), and we include your address so that they know where to send an acknowledgement. If you wish, we can send cheques out anonymously. In that way you get to choose which charities have access to your name and address and which do not.

What is the process for donating securities?

MFC will provide you with a Letter of Direction to complete. You will need to fill in the date, your name and address, the account where the securities are held, the name and trading symbol of the securities, and the quantity or the dollar amount you want to donate. The letter lists the MFC brokerage account where the securities are to be sent. When the letter is complete you need to sign it in front of a person who is authorized to guarantee your signature, and they will stamp the letter with a signature guarantee stamp. If the investment account is owned jointly, both parties need to sign the transfer letter. Return the original completed transfer letter to MFC.

If you hold a physical certificate (shares or bonds) or your investments are held in a Dividend Reinvestment account (DRIP), there are extra steps required to complete the donation. In these situations contact an MFC consultant for further information.

Can you send this transfer form directly to my broker?

Yes, if your broker is familiar with the transfer process, we can email a copy of the letter to them and they can assist you in completing it.

It is essential that a completed copy of this letter is faxed to MFC so that we know a transfer has been initiated and can track it. We also require the information from the letter to issue the donation receipt.

How is the donation receipt value calculated?

MFC issues a receipt for the value of the securities on the day you initiate the transfer. The value is determined by the closing price, or the average of the high and low trading price, whichever calculation yields the higher receipt value. For mutual funds, which are priced once a day, the daily closing price is used, provided we receive the instructions prior to market close.

What if I don't need the whole value of my charitable receipt to reduce my taxes payable to zero?

You can carry forward unused charitable deductions for up to five years after the year the donation was made.

What happens once the securities are donated?

When the securities have been transferred to MFC's brokerage account, MFC will place an order to sell them. We will send you the donation receipt and an account statement showing the amount available for distribution to charity.

You advise us how much you would like to disburse to which charities. If you want some funds to be disbursed later, they will be held in a gifting account for future distributions to charity.

Why is the amount shown on my statement different than what I was receipted for?

You are receipted for the value of the securities on the day you initiated the transfer. It can take a few days to several weeks from the time you initiate the transfer until the securities arrive in MFC's brokerage account. Because the market price of the securities fluctuates, the value can increase or decrease over the time it takes to complete the transfer. The amount shown on your statement is the net proceeds from sale after MFC's donation has been deducted. Your donation receipt will show the value of the securities on the day you initiated the transfer. The difference between the two numbers is due to the market value changes during the transfer period, as well as the donation to MFC. The statement indicates the amount available to disburse to the charities you choose.

If I don't distribute the entire proceeds immediately, will MFC pay interest on the balance in my gifting account?

Yes, contact an MFC consultant to discuss these options.

What if I don't want to send the donated capital to charity, only the earnings from the donation?

In this situation we would establish an endowment fund and deposit the proceeds from the sale into that account. In an endowment fund the proceeds from the sale of the securities cannot be distributed until 10 years has passed from the date of the donation. However the earnings (interest) on the endowment fund can be sent annually to the charities you wish to support.

If you want to know more about endowment funds please contact an MFC consultant.

Is there a minimum amount you will send to a charity?

We don't have a minimum, but for administrative ease we suggest \$100.00.

How is MFC compensated for their work in this transaction?

A portion of the sales proceeds are considered a donation to MFC to support our work. We use the following scale to determine the amount of the donation.

<u>Net proceeds of sale of donated securities</u>	<u>Donation to MFC</u>
Under \$50,000.00	2.0%
\$50,000.00 to \$99,999.99	1.5%
\$100,000.00 to \$249,999.99	1.0%
\$250,000.00 to \$499,999.99	0.5%
\$500,000.00 and greater	negotiable

The minimum donation retained by MFC is \$50.00.

Is there a cost to maintain the gifting account or make distributions?

The donation to MFC at the time the security is sold covers the costs of maintaining the gifting account and issuing cheques. No additional charges or fees will be deducted from your account unless you advise MFC that you wish to make an additional donation to support the work of MFC.

What does my donation to MFC support?

Your donation to MFC allows us to provide the following stewardship products and services:

- charitable gift, will, and estate planning advice
- biblical teaching about money through the development and distribution of printed resources; presentations; seminars; Sunday school classes; and sermons.