



## Mackenzie Charitable Giving Program

# Proceeds of Stock Options

Many Canadians receive stock options as part of their employee compensation, which can provide significant compensation but generally trigger a taxable event. While no tax is payable at the time a stock option is awarded, a taxable employment benefit would apply when a stock option is exercised. The difference in price between the option price and the fair market value of the stock at the time of exercise is included as an employment benefit on the employee's T4. This benefit is included as income and a tax deduction of 50% of the benefit is generally permitted when the stock option is for a publicly traded company.

As part of a planning strategy, part or all of the cash proceeds of an employee stock option can be donated to a registered charity or a charitable foundation such as the Mackenzie Strategic Charitable Giving Foundation.

### The Tax Rule

If an individual makes a donation within 30 days of exercising an option, there is an additional deduction of 50% of the taxable employment benefit. As a result, the individual can receive a donation tax credit for the full amount of the donation and is not required to pay tax on the difference between the exercise price and the fair market value of the stock when exercised. As you can see, donating optioned stock cash proceeds is treated the same way as are donations of publicly-listed securities.

Donors can also choose to donate vested options (options granted have a holding period before they can be exercised and "vest" when the holding period expires). Vested options can be donated directly to a registered charity or foundation. In this case, the donor would receive a tax receipt for the fair market value without creating a capital gain, as the gain would be reduced to zero when the option is exercised by the charity.

### Let's look at an example:

LC Corporation is a publicly traded company that awarded senior executives 1,000 stock options at an option price of \$5 per share. With a public company the difference between the fair market value of the stock when exercised and the option price is a taxable employment benefit to the executives. If the fair market value is \$10 at the time of exercise, then there would be a taxable employment benefit of \$5,000. Each executive would receive a deduction for half of this benefit, as a result, they would only be taxed on \$2,500.

### Let's look at the numeric example:

1,000 shares with a fair market value of \$10/share	\$10,000
1,000 shares with an option price of \$5/share	– \$5,000
Taxable employment benefit	\$5,000
Less 50% stock option deduction	– \$2,500
Stock option employment benefit	\$2,500
Tax payable (marginal tax rate 45%)	\$1,125
Proceeds from exercising options	\$8,875

If the exercised options are donated to charity in the year and within 30 days of exercise, the taxable employment benefit can be reduced by an additional 50% eliminating the taxable employment benefit. Canada Revenue Agency form T1170 must be used to record the calculations.

As the donor, the executives will also receive a donation tax credit of \$10,000, which represents the full amount of the stock option being donated to charity. The donation tax credit can be used to offset up to 75% of the net income of the executive or the executive's spouse or common-law partner. Any unused credits can be carried forward for up to 5 years.

#### Example:

Donation	\$10,000.00
Donation tax credit (average of all provinces)	- \$4,456.06
Total cost of the donation	\$5,543.94

## How the Mackenzie Charitable Giving Program can help

The Mackenzie Charitable Giving Program is a donor-advised program that is excellent for individuals who are interested in making giving a regular part of their overall financial plan. This is a simple and convenient solution that combines immediate tax benefits for donors and the ability for them to support their favourite charities now and into the future. If you are philanthropic and have some stock options you were thinking of exercising this program may be a great fit for you.

#### Program Details are as follows:

Minimum Initial Gift	\$10,000
Subsequent Donations	\$500
Name of Foundation	Strategic Charitable Giving Foundation
Investment Options	13 eligible mutual funds (1 Fund per account)
Fees	MER on eligible mutual fund; + charitable administration fee 0.55% on accounts under \$2.5M Over \$2.5M – Contact Mackenzie Investments for details

If you have unexercised stock options you would like to donate to charity, please speak with your financial advisor about this strategy.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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Mackenzie developed the Mackenzie Charitable Giving Fund program with the Strategic Charitable Giving Foundation, a registered Canadian charity. Donations under the program are irrevocable and vest with the Foundation. The information is general in nature and is not intended to be professional tax advice. Each donor's situation is unique and advice should be received from a financial advisor. Please read the program guide for complete program details, including fees and expenses, before donating.