

RESEARCH

Charitable Gifts of Securities: Implications for Canadian Organizations

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Imagine  Canada

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- Association of Fundraising Professionals
- Association for Healthcare Philanthropy
- Canadian Association of Gift Planners
- Canadian Council for the Advancement of Education
- Community Foundations of Canada
- Business for the Arts, formerly The Council for Business and the Arts in Canada

Most importantly, we would like to thank the representatives of the hundreds of charities, including many Imagine Canada members, who took time from their busy days to respond to our survey.

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Executive Summary

In 2006, the federal government removed the capital gains tax on donations of securities to most charities, making these donations more attractive to potential donors than they had been previously. Although anecdotal evidence suggests that donations of securities increased following the introduction of this measure, there has been little systematic data substantiating this. Imagine Canada conducted an exploratory study in February and March of 2007 to explore the impact of the elimination of capital gains tax for donations of securities. Among the charities participating in our study, both the number and total value of donations of securities increased noticeably after the 2006 measure was introduced.

Background and Study Limitations

We surveyed members of seven umbrella organizations and membership associations about the donations of securities they had received over the past four years and received responses from 245 charities.¹ Most survey respondents (215) were invited to complete an online survey. A small number (30) were surveyed by telephone, in order to validate the results of the online membership survey. These respondents were recruited from a pool of charities that were judged to be most likely to have received donations of securities.

The number of respondents to this study is very small, and they differ from Canadian charities as a whole in a number of important ways (e.g., large organizations are over-represented, religious organizations are under-represented, etc.). For these reasons, this study should be viewed as exploratory, and the responses of survey participants should not be considered representative of all charities.

Major Findings

Survey respondents reported that donations of securities increased noticeably between 2005 and 2006:

- The percentage of charities receiving donations of securities increased from 43% to 49%.
- The number of donations of securities more than doubled.
- The total value of donations of securities doubled.
- Public foundations reported larger increases in the number and total value of donations of securities than did charitable organizations.²

Most donations went to the largest charities:

- Charities with annual revenues of \$10 million or more consistently received approximately 90% of the total value of donations of securities.
- From 2005 to 2006, the percentage of the total value of donations of securities going to the smallest organizations increased markedly.

¹ The umbrella organizations and associations are the Association of Fundraising Professionals, the Association for Healthcare Philanthropy, the Canadian Association of Gift Planners, the Canadian Council for the Advancement of Education, Community Foundations of Canada, Business for the Arts, and Imagine Canada.

² In this report we use the term “charitable organization” in the sense the Canada Revenue Agency uses it, i.e., to refer to a registered charity that is not a foundation. We use the word “charities” to refer to all registered charities. Private foundations are excluded from this study because, until March 2007, they were exempted from initiatives intended to encourage donations of securities.

Between 2005 and 2006, typical donation patterns changed, with survey respondents receiving more donations of securities. Among respondents that had received donations of securities, the average number of donations received increased by almost 90% while the average value of donations increased by 80%.

Between 2005 and 2006, donations of securities became an increasingly important component of giving and of total revenues for survey respondents, and they appear to have at least partially replaced other forms of donations:

- The average percentage of total donations received in the form of gifts of securities increased by over one quarter.
- The average value of donations of securities increased by 49%, while the average value of total donations (i.e., including non-securities donations) remained stable. By implication, this means that donations of securities at least partially replaced other donations.
- The average value of donations of securities, expressed as a percentage of organizational revenues, almost doubled.

Survey participants believe that the 2006 measure is important, and many are actively promoting its existence in their fundraising. Most respondents (85%) believe that the importance of securities donations will increase. Most believe that tax incentive initiatives are important for the future of their charity:

- A majority of charities said that this type of tax incentive legislation was essential to the future of their charity.³
- A majority of respondents considered the 2006 measure removing capital gains tax on donations of securities to be essential to their fundraising; just over one third said the same of a 1997 measure that effectively halved the capital gains tax.

Charities are marketing these donations to a broad audience and are making specific mention of the 2006 initiative:

- Over half of charities responding to the survey said that they had marketed donations of securities to potential donors.
- Among those marketing these donations, three quarters said they aimed this marketing at donors generally rather than focusing on major donors, and almost nine in ten mentioned the 2006 policy changes in this marketing.

Implications of Findings

A number of implications emerged from our findings. Firstly, donations of securities are increasing and they are becoming increasingly mainstream. Charities need to be prepared to receive further increases. Secondly, the typical securities donation is much larger than the typical non-securities donation. Charities that depend on regular and frequent small donations may have to adjust their cash flow assumptions. Thirdly, securities donations to smaller charities appear to be increasing. Smaller charities may have particular difficulties with these donations and more research is needed to help them realize the full potential of securities donations. Finally, although securities donations are increasing, comparatively little is known about the donors who make these contributions. More research is needed to better understand their values, attitudes, and perceptions, particularly given that the pool of securities donors appears to be increasing.

³ Respondents rated the importance of this legislation as a four or five on a five point scale, where five was “extremely essential” and one was “not at all essential.” The importance of the 2006 and 1997 legislation was assessed using the same scale.

Introduction

The federal government has sponsored a range of initiatives over the previous decade intended to increase donations of publicly traded securities to Canadian charities. Among the most recent of these measures was the 2006 decision to exempt donations of securities from capital gains tax. While anecdotal evidence suggests that the 2006 measure was followed by increased donations of securities, as yet there has been little systematic research demonstrating this. As well, there has been little understanding of how this and previous initiatives have affected individual charities. This exploratory study summarizes the experiences of 245 charities that participated in our study and seeks to answer four key questions:

- Are donations of securities increasing among respondents, and how large is any change?
- Are donations of securities becoming an increasingly important part of total donations for respondents?
- Do respondents see policy changes pertaining to donations of securities as important, and how are they marketing these initiatives to potential donors?
- What are the implications of these findings for Canadian charities generally?

This study is based primarily on a survey of charities recruited through their membership in seven major associations and umbrella organizations serving the charitable sector. While these seven organizations cover a broad cross-section of the charitable sector, survey respondents do not constitute a representative sample of all Canadian charities. Members of these organizations are probably more likely to receive donations of securities than are other charities. Additionally, many respondents may have chosen to participate in our study because they were particularly interested in the topic.

This report is not intended to be a definitive treatment of the effects of the 2006 measure on all Canadian charities. It does, however, provide insight into the effects of these changes on those charities which are more likely than others to have received donations of securities or to receive them in the future. The charities that participated in our study reported that both the number and value of donations of securities have increased noticeably since the 2006 changes. They also reported that the patterns of donations of securities are changing somewhat and that the importance of these donations is increasing. These changes have potential implications for charities as a whole.

Background

There are approximately 83,000 registered charities in Canada. These charities regularly touch the lives of Canadians, and many of them receive financial support in the form of donations from individual Canadians. In recognition of their role in Canadian life, registered charities are allowed to issue receipts for donations that can be used by donors to claim tax credits on their personal income tax. In 2005 (the most recent year for which figures are available), Canadians claimed \$7.9 billion in charitable donations (Statistics Canada, 2006).

The vast majority of charitable donations are monetary donations, as opposed to donations of capital property. Capital property, of which securities are a key example, represents a vast potential source of donations. For example, in 2006, Statistics Canada estimated that Canadians owned shares worth approximately \$1.4 trillion (Alexander, 2007). However, until 2006, donations of securities tended to be less attractive to potential donors than monetary donations. Because securities are a capital asset, donors were taxed on a portion of any appreciation in the value of

the securities, which meant that donating securities resulted in higher personal income taxes for the donor than did donating money of equivalent value. Although securities donations could be cheaper than monetary donations in the long run due to appreciation in value of the securities, donors were still faced with higher tax bills in the year of donation than they would have been if they had donated money.

In 2006, in order to encourage increased donations of securities, the federal government exempted them from capital gains tax, which meant that donations of securities would no longer result in higher personal income tax than monetary donations of equivalent value. This was only the most recent of a number of tax initiatives on donations of securities and other capital properties that includes:

- In 1997, the federal government halved the income inclusion rate⁴ on capital gains for donations of publicly traded securities for a five-year trial period (Department of Finance Canada, 1997).
- In 2000, the 1997 measure was extended to include donations of ecologically sensitive land (Department of Finance Canada, 2000).
- In 2001, the government announced that the 1997 and 2000 measures would be adopted permanently (Department of Finance Canada, 2002).

However, until 2007 these measures did not apply to all charities. They applied only to public foundations, which focus mainly on distributing funds (they are required to disburse at least 50% of their annual income to qualified donees) and to charitable organizations (which mainly carry out their own charitable activities). In 2007, the capital gains tax exemption was expanded to include donations of securities to private foundations (Department of Finance Canada, 2007).

There is comparatively little evidence about the impact of the changes in the tax treatment of donations of securities since 1997. What is known can briefly be summarized as follows:

- According to the Department of Finance, between 1997 and 2000 the total value of donations of securities nearly tripled, from \$69.1 million to \$200.3 million. Over the same period, the number of donors making securities donations increased from 500 to almost 2,400 (Department of Finance Canada, 2002).
- A 2000 survey of 606 charities conducted by Deloitte and Touche found that the average value of donations of securities reported by respondents increased almost fourfold between 1997 and 1999, from \$64,893 to \$251,626 (Deloitte and Touche, 2000).
- The 2006 Budget noted that in 2004 donations of securities totaled approximately \$200 million (Department of Finance Canada, 2006).

Even less is known about changes since the 2006 initiative. Imagine Canada launched a study to evaluate changes in the donations of securities after the 2006 policy changes. The study was initiated in February 2007, when the measure had been in effect for just 10 months. Anecdotal evidence suggested that there had been a number of high-value securities donations over that period, but reliable quantitative data was lacking. The methodology of this study is described in the following section.

⁴ The income inclusion rate refers to the percentage of any appreciation in the value of the security classified as income for tax purposes. When the income inclusion rate on these donations was halved in 1997, the percentage of increased value of a donated security counted as income dropped from 75% to 37.5% (Department of Finance Canada, 1997).

Methodology and Limitations

This exploratory study combined two survey methods. Most respondents were recruited from among the memberships of seven charitable and nonprofit membership associations and umbrella groups and answered the survey online. A small number of respondents were selected from a supplementary list of charities that were judged most likely to have received donations of securities over the previous four years; these respondents answered the survey by telephone. The total number of study respondents (i.e., those who responded by both methods) was 245. These respondents are not a representative cross-section of Canadian charities, and users should not extrapolate the findings from this study to all charities. However, our findings clearly demonstrate the type of impact these tax measures can have.

Survey Content

The survey collected information about:

- the number of donations of securities and the total value of donations of securities they had received annually from 2004 to the present;
- marketing efforts to potential donors concerning donations of securities; and
- the importance of these donation incentives to their organization.

Some respondents provided information about the total value of all donations they had received annually (i.e., including methods other than donations of securities), as well as their total revenues. However, in most instances this information was obtained by consulting the publicly available T3010a Information Returns that charities are required to file annually with the Canada Revenue Agency.

Survey Respondents

Most organizations (215 out of 245) responded to the survey using an online questionnaire. These respondents were recruited by e-mails sent to members of seven partner charitable and nonprofit membership associations and umbrella groups. The partner associations and umbrella groups were:

- Association of Fundraising Professionals
- Association for Healthcare Philanthropy
- Canadian Association of Gift Planners
- Canadian Council for the Advancement of Education
- Community Foundations of Canada
- Business for the Arts, formerly known as The Council for Business and the Arts in Canada
- Imagine Canada.

The recruitment e-mails, sent in both English and French, contained a brief explanation of the nature and purpose of the study and links to English and French versions of the online questionnaire. Two reminder e-mails were sent out at approximately two-week intervals. However, not all partners forwarded these reminders to their members.

Because partners sent recruitment e-mails directly to their members, an unknown number of charities that were members of more than one partner received multiple invitations. A small

number of them provided more than one response to the survey. Where this occurred, only one response was included in our study.

Supplementary Survey

A small number of organizations (30 out of 245) responded to a supplementary survey administered by telephone. This survey was targeted at larger charities that were believed to be most likely to have received donations of securities. These charities were selected using information from the 2003 T3010a Information Returns that charities are required to file with the Canada Revenue Agency. Charities were targeted using a stratified random sample drawn from charities that:

- had annual revenues of \$1 million or more;
- had reported receiving gifts of securities in 2003; and
- worked in activity areas most likely to report donations of securities.⁵

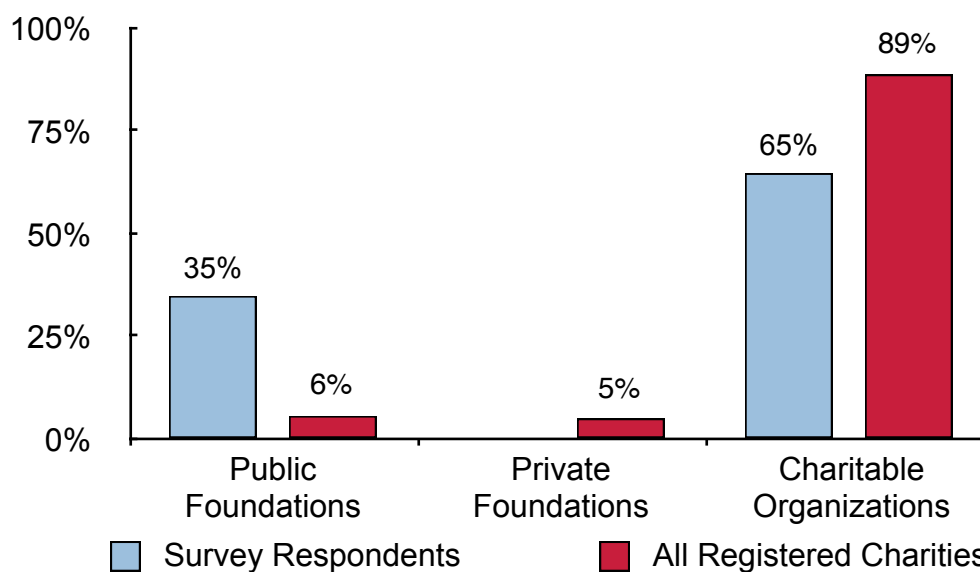
We added the supplementary survey because we were concerned about the low response rate from the online membership survey and wanted to validate the results of that survey, particularly among charities that were most likely to have received large donations of securities.

Sample Representativeness

The respondents to this study do not constitute a representative cross-section of registered charities. They differ from the universe of charitable organizations in a number of important ways:

- Private foundations are not included because until March 2007 they were specifically excluded from government securities donations initiatives.
- Public foundations are over-represented compared to their true numbers among charities as a whole (see Figure 1).

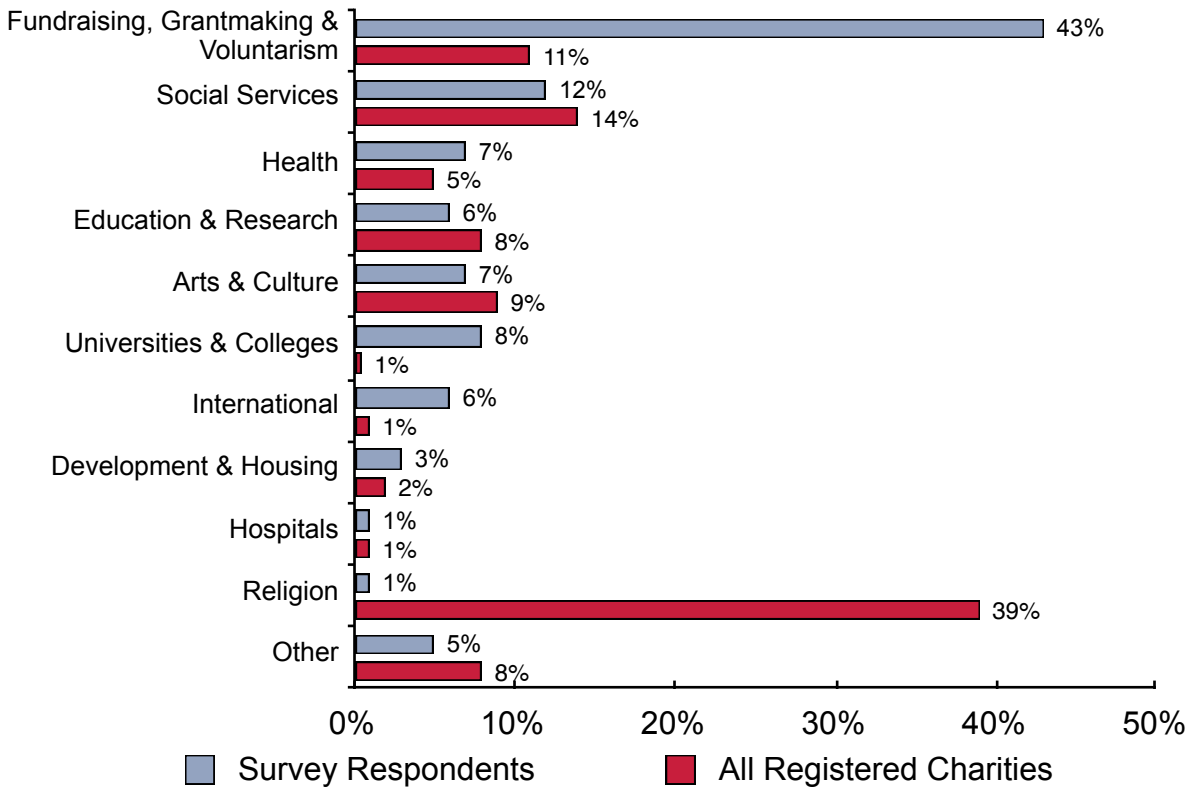
Figure 1: A comparison of the designation of survey respondents vs. all registered charities.



⁵ Charities that are most likely to have received donations of securities are those working in the areas of Fundraising, Grantmaking and Voluntarism Promotion, International Development and Relief, Environment, Education and Research, Arts and Culture, and Universities and Colleges.

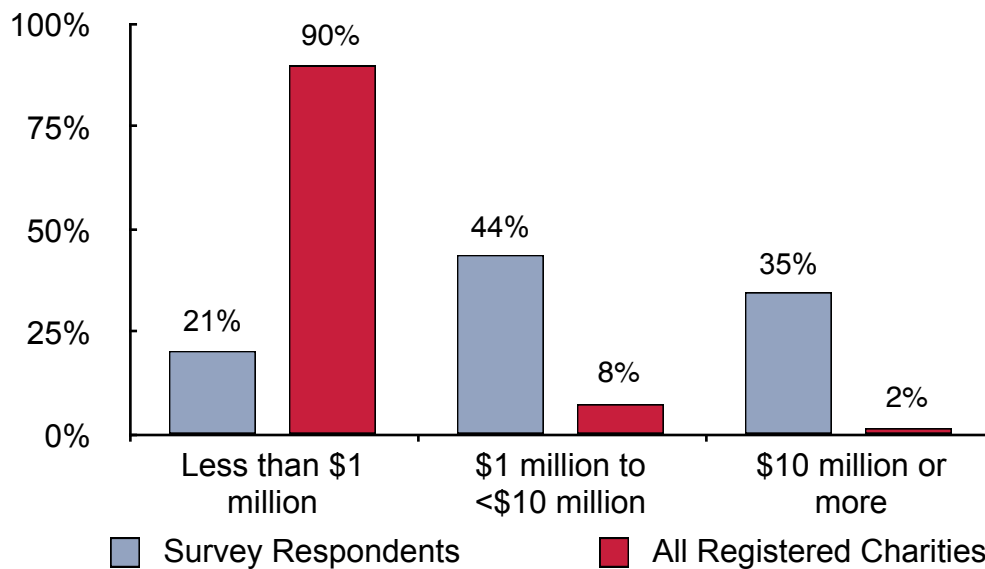
- Religious organizations are greatly under-represented, while other types of organizations such as Universities and Colleges and Health organizations are over-represented (see Figure 2).

Figure 2: A comparison of the primary activity area of survey respondents vs. all registered charities.



- Organizations with annual revenues of \$1 million or more are over-represented, while those with annual revenues less than \$1 million are under-represented (see Figure 3).

Figure 3: A comparison of the annual revenue size class of survey respondents vs. all registered charities.



Survey Findings

Survey respondents indicated they had experienced a number of important shifts with regard to donations of securities following the 2006 exemption of donations of securities from capital gains tax. They reported that both the total number and the total value of donations of securities increased. As well, the importance of donations of securities to respondents increased, both in terms of the percentage of value of total donations and the contribution to total organizational revenues. Additionally, respondents believe that these donation incentives are important and that their importance will increase. All of these major trends are described in greater detail below.

Although data from 2007 are presented below, many charities were unable to report results for that fiscal year. These data are incomplete and should not be considered definitive. Statistical analyses were conducted to determine whether there were significant variations in responses. Comparisons are highlighted in the text only if they were found to be statistically significant.

More charities are reporting donations of securities.

More respondents reported receiving at least one donation of securities in 2006 than was the case in previous years. About one third (34%) reported that they had received donations of securities in 2004, compared to almost half (49%) in 2006 (see Table 1). Two fifths (40%) received donations of securities during 2007, even though most charities had not yet completed their 2007 fiscal year.

Public foundations were more likely to report receiving donations of securities than were charitable organizations. However, between 2004 and 2006, the likelihood of receiving donations of securities increased more among charitable organizations than among public foundations, and the gap between the two types of charities narrowed slightly.

Table 1: Percentage of survey respondents reporting donations of securities, by designation and fiscal year.

Fiscal Year	Public Foundations (n=85)	Charitable Organizations (n=157)	All Participants (n=242)
2004	48%	26%	34%
2005	53%	38%	43%
2006	61%	43%	49%
2007*	55%	32%	40%

* 2007 data is incomplete. Many charities had not completed their 2007 fiscal year and were unable to report data or reported partial data. Additionally, not all respondents provided information on their designation.

The number of donations of securities increased.

Between 2005 and 2006, the annual number of donations reported by survey respondents more than doubled, from 1,182 to 2,502 (see Table 2). This increase was much larger than the increase between 2004 and 2005. Even though only partial data was available for 2007, the total number of donations reported (1,685) was noticeably larger than during either 2004 or 2005.

Public foundations reported larger increases in the number of donations of securities than did the charitable organizations. Between 2005 and 2006, the number of donations reported by public foundations increased by 139%, while the number of donations reported by charitable organizations increased by 82%.

The total value of donations of securities increased.

Between 2005 and 2006, the total value of donations of securities reported by respondents doubled, from almost \$122 million to just under \$245 million (see Table 2).

Donations to public foundations have increased more than donations to charitable organizations. Between 2005 and 2006, the total value of donations of securities reported by public foundations increased by 190%. In comparison, the total value reported by charitable organizations increased by 55%. Between 2004 and 2006, these increases were 131% and 80%, respectively.

Table 2: Number and total value of donations of securities reported by respondents, by designation and fiscal year.

Fiscal Year	<i>Public Foundations</i>		<i>Charitable Organizations</i>		<i>All Participants</i>	
	# Donations	Value of Donations	# Donations	Value of Donations	# Donations	Value of Donations
2004	472	\$52,338,403	408	\$68,912,922	880	\$121,251,325
2005	618	\$41,547,734	564	\$80,281,888	1,182	\$121,829,622
2006	1,478	\$120,689,763	1,024	\$124,240,730	2,502	\$244,930,493
2007*	585	\$48,357,529	1,100	\$46,282,615	1,685	\$94,640,143
Total	3,153	\$262,933,429	3,096	\$319,718,155	6,249	\$582,651,584

* 2007 data is incomplete. Many charities had not completed their 2007 fiscal year and were unable to report data or reported partial data.

Most donations of securities went to the largest charities, but the amount going to the smallest charities has increased.

Among survey respondents, the largest charities (those with annual revenues of \$10 million or more) consistently received the lion's share of the total value of donations of securities (see Table 3). However, in 2006, the percentage of the total value of donations of securities going to organizations with annual revenues of less than \$1 million jumped noticeably, to 5.4%.

Table 3: Total value of securities and percentage of total securities value, by annual revenue class and fiscal year.*

Fiscal Year	<i>Annual Revenues</i>			<i>All Organizations (n=221)</i>
	<i>Less than \$1 million (n=46)</i>	<i>\$1 million to \$9.9 million (n=98)</i>	<i>\$10 million and more (n=77)</i>	
2004	0.0%	5.2%	94.7%	100%
2005	0.1%	6.9%	93.0%	100%
2006	5.4%	7.0%	87.6%	100%
Total	1.4%	20.0%	78.7%	100%

* Not all respondents provided sufficient information to classify them according to annual revenues.

Charities received many more donations of securities.

Those organizations that received donations of securities reported that the average number of donations they received almost doubled, going from 11.3 in 2004 to 22.1 in 2006 (see Table 4). Over the same period, the average total value of securities donations reported by these respondents increased from just under \$1.6 million to \$2.1 million.

Table 4: Average total number and total value of securities donations and average value of individual securities donations, reported by respondents receiving securities donations, by fiscal year.

Fiscal Year	Average Total # of Securities Donations	Average Total Value of Securities Donations	Average Value of Individual Donations
2004	11.28	\$1,554,504	\$137,786
2005	11.82	\$1,171,439	\$103,071
2006	22.14	\$2,129,830	\$97,894
2007*	17.93	\$996,212	\$56,166

* 2007 data is incomplete. Many charities had not completed their 2007 fiscal year and were unable to report data or reported partial data.

The share of total donations from securities increased.

Securities donations account for an increasingly larger percentage of total donations among respondents that reported receiving them. Between 2005 and 2006, donations of securities increased from an average of 14.3% of the value of receipts donations⁶ to 18.4% (see Table 5).

Donations of securities are also playing an increased role in terms of total revenues. In 2005, donations of securities accounted for an average of 3.6% of total organizational revenues among respondents; this increased to 6.7% in 2006.

Table 5: Average value of donations of securities as a percentage of receipts donations and total revenues, reported by respondents receiving securities donations, by fiscal year.

Fiscal Year	Average Value of Securities Donations as % Receipted Donations	Average Value of Securities Donations as % Total Revenues
2004	11.5%	3.5%
2005	14.3%	3.6%
2006	18.4%	6.7%
2007*	25.9%	14.7%

* 2007 data is incomplete. Many charities had not completed their 2007 fiscal year and were unable to report data or reported partial data.

Donations of securities may be replacing other types of donations.

Organizations that received donations of securities reported that the average value of securities donations increased by 49% between 2005 and 2006 (see Table 6). Over the same period, the average value of total donations held steady, or even declined slightly. By extension, it appears that some donations that in the past would have been made in other ways are now being made as donations of securities.

⁶ "Receipted donations" refers to donations for which charities issued receipts that can be used by donors to claim income tax credits.

Table 6: Average value of donations, reported by respondents receiving securities donations, by donation type and fiscal year.*

Donation Type	2004 (n = 72)	2005 (n = 98)	2006 (n = 82)	2007 (n = 27)
Securities donations	\$1,167,594	\$1,224,676	\$1,821,139	\$773,033
Non-securities donations	\$12,294,111	\$11,727,086	\$10,468,556	\$3,087,827
Receipted donations	\$13,461,705	\$12,951,762	\$12,289,695	\$3,860,860

* Not all charities reported total donations and total revenues. This presentation includes only charities that reported these figures. For this reason, figures for the average securities donation differ from those shown in Table 4.

Charities believe the importance of donations of securities will increase.

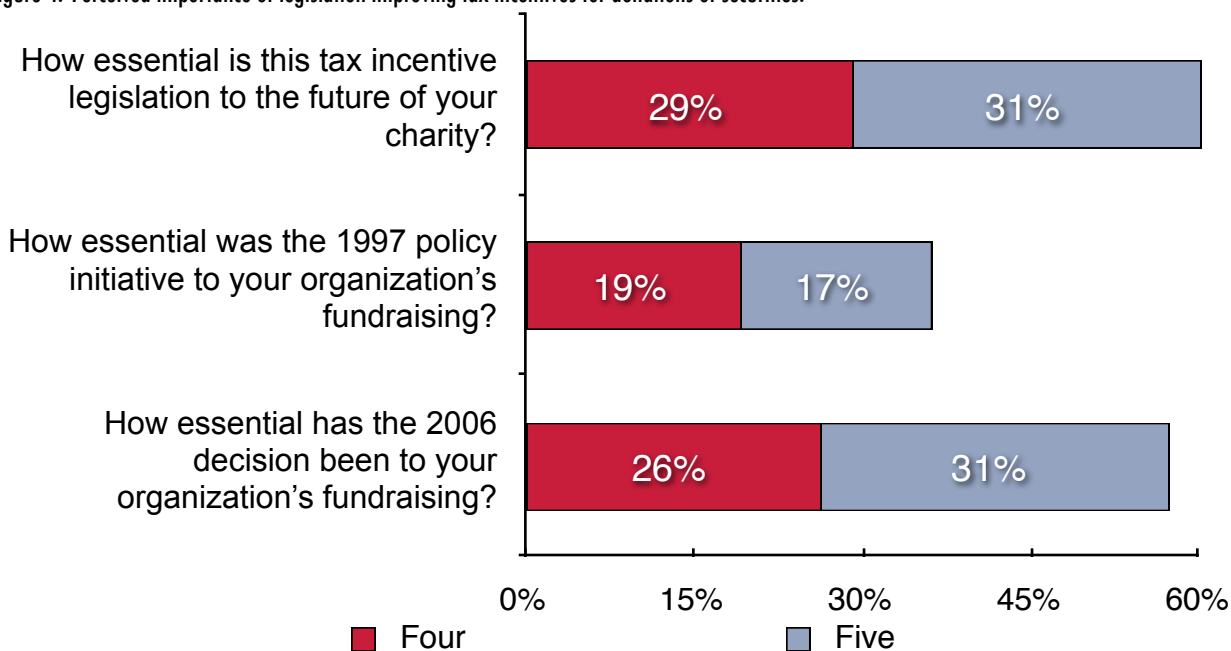
A clear majority (85%) of charities participating in the survey indicated that they believe the importance of donations of securities to their organization would increase over the next three years, while 15% thought the importance of these donations would remain the same. Virtually none thought that the importance of these donations would decrease.

Most charities believe these types of tax initiatives are important to their future.

Respondents were asked to use a five-point scale to evaluate how essential they believed this tax incentive legislation is to the future of their charity. On this scale, five was considered “extremely essential” and one “not at all essential.” A majority (60%) of charities assessed the importance of this legislation as a four or five on the five-point scale (see Figure 4).

Charities viewed the 2006 removal of capital gains tax as more important than the previous 1997 initiative that halved the income inclusion rate. Over half (57%) of charities assessed the importance of the 2006 measure as a four or five, compared to 36% for the 1997 measure.

Figure 4: Perceived importance of legislation improving tax incentives for donations of securities.*



* Respondents were asked to rate the importance of items using a five point scale where one was “not at all essential” and five was “extremely essential”.

Charities are marketing donations of securities broadly and are making specific mention of the 2006 tax exemption.

Another potential measure of the importance of these initiatives is the degree to which charities market them to potential donors. Over all, more than half (58%) of the charities participating in our study said they had marketed donations of securities. Of these, three quarters (78%) targeted their marketing at donors generally rather than focusing on major donors, and most (88%) mentioned the recent 2006 policy changes in this marketing.

Summary and Conclusions

Although this is an exploratory study, it illustrates the impact that the 2006 measure has had on charities that we believe are particularly likely to have received these donations. While more research should be undertaken to fully validate these findings, there are some important implications and charities should consider them closely.

Donations of securities are becoming more mainstream, and charities need to be prepared.

Donations of securities appear to be becoming more common and the number and total value of securities donations also appear to be increasing. Judging from the experiences of the charities in our study, these donations are becoming more mainstream and charities need to ensure that they are prepared. Although the average value of donations of securities is still quite large, anecdotally a number of study respondents said that the number of smaller donations is increasing rapidly. It is likely that this trend will continue. Charities that are already equipped to receive donations of securities need to ensure that they have policies and procedures to deal with more of them, while charities that have not yet received such donations should consider preparing themselves to receive them.

Donations of securities may change the frequency with which donors make donations.

Although smaller donations of securities may be becoming more prevalent, even the smaller securities donations tend to be much larger than the average non-securities donation. This may mean that many donors of securities will donate less frequently than they would have had they donated money. This has particular implications for charities that depend primarily on regular and frequent small donations. Organizations may have to adjust their cash flow assumptions should their donors wish to donate securities instead of money.

Donations of securities to smaller charities seem to be increasing, and this may pose particular challenges for them.

Among survey respondents, donations of securities to smaller charities appear to be increasing. Many smaller charities may have difficulty dealing with this type of donation. Examples of difficulties could include immediately practical matters such as not having a brokerage account or having difficulty absorbing sudden large donations of securities. More research is needed on the role of donations of securities in smaller charities and the assistance that smaller charities may require in order to realize the full potential of these donations.

Although the importance of donations of securities is increasing, comparatively little is known about the perceptions and values of the donors who make these contributions.

Although measures intended to increase the attractiveness of donations of securities have existed for a decade, comparatively little is known about the donors who make these donations. Typically they are presumed to be wealthy individuals. However, as donations of securities become more mainstream this may change. In order to ensure that charities reap the maximum benefit from these donations more research should be undertaken to better understand these donors, particularly their values, attitudes, and perceptions around donating.

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