GIFTING APPRECIATED STOCK TO CHARITY

Wealth Planning | Tax Planning

Charitable giving can take many forms. Whether you gift on an annual basis or you are planning to make a one-time gift, make sure you are maximizing the tax benefits associated with your gift. One way to do this is to compare gifting cash versus stock.

Most people donate to charity in the form of cash. This can be a huge mistake, especially if they hold securities with unrealized long-term gains. Donating appreciated stock is a cashless transaction that yields additional tax benefits to the donor. First, the donor receives an itemized deduction equal to the fair market value (FMV) of the stock. FMV is calculated as the high-low average of the stock price on the day contributed. This deduction is limited to 30% of the donor's adjusted gross income (AGI) for gifts to public charities. Any amount over the 30% AGI limitation can be carried forward for a maximum of five years. Second, the donor does not have to realize the gain on appreciation of the securities. That is a savings of up to 20% in capital gains tax and another 3.8% in net investment income tax. Remember, this is for stock with a long-term holding period. Below is a side-by-side comparison showing the benefits of donating appreciated stock.

	Donate Cash	Sell Stock to Donate Cash	Donate Stock
Adjusted Gross Income (AGI)	$750, 000	$750, 000	$750,000
Fair Market Value (FMV) of Gift[1]	$25,000	$25,000	$25,000
AGI Limit	60%	60%	30%
Charitable Deduction	$25,000	$21,430[2]	$25,000
Cash Required	$25,000	$0	$0
Capital Gains Tax	$0	$3,570[3]	$0

[1] Assume 1,000 shares with a cost basis of $10 and high-low average on the day of contribution of $25.
[2] Assume cash remaining after taxes are paid is donated. See footnote 3 below. ($25,000 - $3,570)
[3] Tax is computed based on the maximum capital gains rate of 20% plus the 3.8% net investment income tax ($15,000 23.8%).*

It's clear that donating long-term appreciated securities is a more tax-efficient way to donate to charity, yet very few taxpayers utilize this strategy. It may be because donors do not realize they can contribute securities to charity or because they want to continue to maintain their current holdings. If you wish to continue to own the stock of a particular company, you can utilize the cash that you would otherwise be donating to charity to repurchase the stock at the current FMV. This effectively generates a charitable deduction and avoids a taxable event, yet allows you to reestablish your desired position at a higher cost basis, allowing you to continue participating in growth and dividends.

Be sure to discuss with your tax advisor the ability to donate appreciated stock to charity and the tax benefits that go along with doing so. This is a great strategy that you may find beneficial.

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