The ABCs of Charitable Giving Using Appreciated Securities

There are probably nearly as many ways and reasons to give as there are organizations and individuals seeking support. Our time, skills and resources are always in demand! The recent hurricanes and other natural disasters have prompted us to remind our clients and our community of one of the most tax efficient ways to give to charitable causes. We understand this method is not as feasible when trying to move funds immediately, however, with a little planning, this is approach is worthy of consideration.

WHAT CONSTITUTES A "GIFT" TO CHARITY FROM A TAX PERSPECTIVE?

A "gift" to charity is simply a gratuitous transfer of property to a charitable organization. The key is that your gift must be some kind of property--your time or personal services do not count (for tax purposes!) There are several different types of property that can be donated to charity, and a gift is limited only by your imagination.

Through tax legislation, Congress has attempted to encourage charitable giving because it is good social policy. Almost every charity depends on individual contributions to remain financially solvent. As a result, charitable giving has become interconnected with tax laws, which have grown more and more complex.

Congress has sweetened the pot for taxpayers who donate to qualified charities. First, you generally receive an income tax deduction in the year you make the gift. Second, you do not have to worry about gift tax because federal gift tax does not apply to charitable gifts. Third, charitable gifts serve to reduce your taxable estate, thus reducing your potential estate tax liability. It is this last area--estate tax--where charitable giving may produce the greatest tax benefits. Over the next 30 years, an estimated $8 trillion of assets will pass from one generation to the next, resulting in the assessment of significant estate taxes. One solution to minimize these estate taxes is charitable giving.

METHODS OF GIVING

Somewhere between cash and clothing donations to more complicated trusts, foundations, and donor-advised funds, there is a reasonably simple method that will allow most of us to financially support qualified charities that will also benefit our tax returns. Specifically, this method is referred to as “donating appreciated securities”. You’ll find this method of giving beneficial to your 1040 in a couple of different ways.

HOW DOES IT WORK?

You start by looking for publicly traded securities (stocks, bonds, mutual funds, Exchange Traded Funds - ETFs, etc.) that reside in a taxable account (e.g., not an IRA or 401(k) plan, etc.) that have *appreciated* in value. You’ll want to look for securities that you have held for at least one year plus a day as they are then considered to have “long-term capital gains”. (“Long-term capital gains” are treated differently than “short-term capital gains”.) The value of a gift of long-term capital gain property is the fair market value of the property on the day it is gifted. The value of a gift of short-term capital gain property is limited to your cost basis (what you paid for the securities originally), and therefore there is no tax value/savings on the appreciation.

Once the shares are transferred to the qualified charity, you will generally be able to take a tax deduction for the fair market value of the securities on the day of transfer, based upon the average of the “hi” and “low” trading prices for that session. And, because you are donating long-term capital gain property, you (and the charity) avoid any capital gains tax on the appreciation amount.

AN EXAMPLE

Justin and Katelyn would like to make a $7,000 charitable donation for the year. They have identified that they own First Trust Water (FIW) in their Joint Tenants brokerage account. Their cost basis is $3,700 and the value of the security today is $7,000. So, the difference between their cost basis and the current market value is $3,300; this is the appreciation amount. They confirm that they have owned these securities for at least 366 days.

If Justin and Katelyn transfer FIW to a qualified charity, they will receive a tax deduction for the full value of the gift ($7,000), assuming that they won’t be phased-out or limited on their deduction. If their marginal tax rate is 32%, the deduction is worth $2,240.

Additionally, they avoid paying capital gains tax on the appreciation amount of $3,300. At a capital gains rate of 15%, that's another $495.

The result? The charity received $7,000 and their net cost for the gift was $3,700 less $2,240 less $495…$965. Not bad! What if you had just written a check for $7,000 to the charity? Since you would be contributing after-tax dollars, again at the 32% marginal tax bracket, that $7,000 would have really cost you $9,240. The higher your marginal tax rate, the greater the value of this strategy.

How Can You Get Started?

You or your advisor can help identify securities that would be beneficial for this type of giving. Typically, a letter of instruction is required to transfer the shares. An example of the form that we use when assisting our clients with this activity follows.

One other gifting idea... If you are taking Required Minimum Distributions from your IRA accounts (Beneficiary IRAs do not qualify), you can speak with your tax accountant to see if a Qualified Charitable Distribution (QCD) makes sense for you. By making a qualified charitable distribution (QCD) from an IRA directly to a charitable organization, you are able to exclude the distribution from gross income (older IRA owners were allowed to exclude up to $100,000 annually from gross income). These gifts, also known as "charitable IRA rollovers," would otherwise be taxable IRA distributions. The law was originally scheduled to expire in 2007, but was extended periodically through 2014 by subsequent legislation and finally made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015.

We look forward to helping our clients and our community with this tax saving strategy for charitable giving and would be happy to answer any questions you may have. In the end, if this approach raises the level of community philanthropy, we believe that will likely lead to more good that gets done by so many hard working, selfless causes that always seem to be striving to do more.

As we are not tax preparers or CPAs, please always confer with your tax-preparer on these and other tax strategies that we discuss.

Authorization to Transfer Securities

To:	From:
TD Ameritrade Institutional	
P.O. Box 919094	
San Diego, CA 92191-9094	
888.530.9135	

We hereby authorize you to execute a transfer of the following securities FROM:

Brokerage Firm	TD Ameritrade
Brokerage Account No	
Security Name	
Security Symbol	
Number of Shares	
Date Acquired	
Cost Basis	

Transfer the stated securities to:

Name of Charity:

Brokerage Firm:

DTC Number:

Account Number:

State Name of Remitter in Memo:

We request this gift to be applied to a specific cause as follows (leave blank if none):________________