

Charitable Donations of Appreciated Stock

In deciding different ways to contribute to your favorite charity, you should consider donating appreciated stock from your investment portfolio instead of cash. Your tax benefits from the donation can be increased and the organization will be just as happy to receive the stock.

This tax planning tool is derived from the general rule that the deduction for a donation of property to charity is equal to the fair market value of the donated property. Where the donated property is “gain” property, the donor does not have to recognize the gain on the donated property. These rules allow for the “doubling up,” so to speak, of tax benefits: a charitable deduction, plus avoiding tax on the appreciation in value of the donated property.

Example: Ruth and Estelle are twins, each of whom wishes to make a contribution to their favorite charity. Each plans to donate \$10,000 to the charity. Each also owns \$10,000 worth of stock in ABC, Inc. which she bought for just \$2,000 several years ago.

Ruth sells her stock and donates the \$10,000 cash. She gets a \$10,000 charitable deduction, but must report her \$8,000 capital gain on the stock, which costs her \$1,920 Federal and Vermont tax.

Estelle donates the stock directly to the charity. She gets the same \$10,000 charitable deduction and avoids any tax on the capital gain. This saves her an additional \$1,920 in tax. The charity is just as happy to receive the stock, which it can immediately sell for its \$10,000 value in any case.

Caution: While this plan works for Estelle in the above example, it will not work if the stock has not been held for more than a year. It would be treated as “ordinary income property” for these purposes and the charitable deduction would be limited to the stock’s \$2,000 cost.

If the property is other ordinary income property, e.g., inventory, similar limitations apply. Limitations may also apply to donations of long-term capital gain property that is tangible (not stock) and personal (not realty).

Finally, depending on the amounts involved and the rest of your tax picture for the year, taking advantage of these tax benefits may trigger alternative minimum tax concerns.

If you would like to discuss this method of charitable giving more fully, including the limitations and potential problem areas, please consult your tax advisor.

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