Exploring the Benefits of Donating Appreciated Stock

As the end of the year approaches, families often consider finalizing their year-end philanthropic giving. If making a substantial contribution to a charity or college is on the horizon, donating appreciated stock from an investment portfolio in lieu of cash is a strategy worth considering. The 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.

For example, let's say an investor purchased a stock several years ago for $2,000 that has now appreciated to $10,000, and that investor would now like to make a $10,000 donation to a university. If the investor sells the stock, he/she will receive a $10,000 charitable deduction, yet he/she will face tax liability on the $8,000 in capital gain on the stock.

However, if the investor instead donates the stock directly to the school, the investor is awarded the same $10,000 charitable deduction, yet avoids the capital gain tax. The school still receives the stock, which it can sell for the $10,000 value.

Caution: While this plan works 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, such as 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). Other factors can affect this strategy, so a tax advisor should be consulted before finalizing a contribution.

Finally, depending on the amounts involved and the rest of the tax picture for the year, taking advantage of these benefits may trigger additional tax consequences.

It is important to work closely with a trusted advisor to understand the actual tax exposure and optimal strategies to employ.

For more information or to discuss a specific opportunity, contact your Anchin Relationship Partner or a member of Anchin Private Client at 212.840.3456 or info@anchin.com.

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