

A Tax-savvy Strategy for Charitable Giving can have Extra Benefits

According to the Giving USA Foundation, more than a million nonprofit organizations rely on charitable gifts as a primary source of support. Thankfully, philanthropy among Americans is on the rise. But while many people give cash, many are unaware of the double tax benefit they can receive if they donate appreciated securities.

When donating appreciated securities such as stocks, bonds, or mutual fund shares, you can generally take a tax deduction for the full market value of the securities and avoid paying tax on the capital gains. To qualify, you must have owned the security for more than a year, and the deduction cannot be more than 30% of your adjusted gross income (AGI) in any given year. (If your deduction would be more than 30% of AGI, you can spread it out for up to five years.)

Avoiding a Capital Gains Tax

For example, suppose that you bought 1,000 shares of stock in XYZ Corporation 15 years ago for \$1,000, and that those shares are now worth \$10,000.

If you sell the stock and give the cash proceeds to charity, your taxable income will be reduced by \$10,000, saving you \$3,500 in federal income tax (assuming that the highest marginal tax rate applies and that you are not subject to limitations on deductions). But you will also owe tax of \$1,350 on your long-term capital gain (15% x \$9,000). Therefore, the real cost of the gift is its market value (\$10,000) plus the capital gains tax (\$1,350) minus the income tax savings (\$3,500), or \$7,850.

But if you had given the stock directly to charity, you would have avoided the capital gains tax while still obtaining a deduction of \$10,000 from taxable income. The real cost of the gift would thus be \$10,000 minus \$3,500, or \$6,500.

[Note: This example does not account for state or local taxes, the alternative minimum tax, or limitations to itemized deductions applicable to taxpayers in higher income brackets.]

*We assume that the capital gains tax is paid with money from another source.

* You can deduct no more than 30% of adjusted gross income (AGI) in a single year for a gift of appreciated securities.

Giving with ease

Donating appreciated securities instead of cash can help in a less obvious way. Aside from the tax savings you receive, charities benefit too, because donors who pay less in taxes can afford to give more.

Note: We recommend that you consult a tax or financial advisor about your individual situation.