Coastal Community Foundation

Donating Appreciated Securities to Charity

A unique way for individuals to contribute more to their favorite charities is to donate appreciated securities, such as stocks, mutual funds, or ETFs.

Donating long-term appreciated securities (rather than cash) is one of the most tax-advantaged methods of charitable giving. With a potential tax deduction and avoidance of capital gains tax, a donor can significantly increase the impact of his or her charitable giving.

Advantages of Gifting Appreciated Securities:

1. A tax deduction for the market value of the gifted securities on the date of the donation (security must be held for at least one year).
2. Avoid paying tax on the unrealized gains of the investment.

An example of the potential federal income tax benefits of donating appreciated stock rather than cash is provided below:

	Stock Gift	Cash Gift
Market Value ($10,000 basis in stock)	$ 30,000	$ 30,000
Income Taxes Saved*	$ 11,100	$ 11,100
Capital Gain Taxes Avoided**	$ 4,760	$ -
Total Tax Savings	**$ 15,860**	**$ 11,100**

**37% marginal federal income tax rate, assuming itemized deductions.*
***20% long-term capital gains tax and 3.8% surtax on net investment income*

Important Considerations

Example above assumes donor is subject to taxes at the highest marginal federal income tax rates. A donor must itemize deductions to obtain a marginal tax benefit from charitable contributions. The amount of the tax deduction may be limited depending on the amount of the donor's adjusted gross income. Securities must be held for at least one year to receive a fair market value tax deduction. State taxes are not included in the calculations above. Tax benefits of investment and charitable giving strategies should be considered in consultation with your tax and/or financial advisor.

Example

John and Mary purchased 1,000 shares of XYZ stock at $10 per share 5 years ago (original investment of $10,000). XYZ stock is now valued at $30 per share ($30,000 market value). John and Mary are subject to taxes at the highest marginal federal income tax rates and would like to donate $30,000 to their favorite charity this year. They expect to itemize deductions.

If John and Mary were to donate $30,000 of appreciated XYZ stock to charity, they would avoid paying $4,760 in capital gains tax and surtax on net investment income while also receiving a tax deduction for the fair market value of the stock (see chart to left). If they wanted to continue to own XYZ stock, they could use their available cash to repurchase the stock and reset their tax basis in the shares.

If John and Mary instead gifted cash, they would have a lower tax benefit from the donation.

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