Foundation Focus

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Charitable Giving is in Season Along with Increasing Tax Deductions

The holiday season is fast approaching and we know there is always a lot to prepare for, including an income review and tax planning. Investments have done well over the past several years and now may be a perfect time to consider donating appreciated stock to an existing community endowment or to start a charitable endowment fund in your family's name. ***Brian Fisher, CPA*** *with Berman Hopkins Wright & Laham writes more about this tax reduction strategy.*

Key donor benefit of a $10,000 gift of stock with a cost basis of $2,000	CASH GIFT	STOCK GIFT
Current fair market value of stock	$10,000	$10,000
Income taxes saved	$2,500	$2,500
Capital gains taxes saved*	$0	$1,500
Total tax savings	$2,500	$4,000

*Assumes 15% capital gains tax and 25% tax bracket

If you are planning to make a relatively substantial contribution to a charity, you should consider **donating appreciated stock** (held more than one year) 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: Tim and Tina are twins who each plan to donate $10,000 to the endowment of their favorite community charity. Each also owns $10,000 worth of stock in ABC, Inc. which they bought for just $2,000 several years ago.

Tim sells his stock and donates the $10,000 cash. He gets a $10,000 charitable deduction, but must report his $8,000 capital gain on the stock.

Tina donates the stock directly to the charity's endowment. She gets the same $10,000 charitable deduction and avoids any tax on the capital gain. The charity is just as happy to receive the stock, which it can immediately sell for its $10,000 value in any case.

It's important to consult with your tax and financial advisor for this type of transaction. A phase-out of your charitable contributions may result depending on your adjusted gross income and filing status. Also, the donation of "depreciated stock" (i.e. loss) is not advisable. Taking the loss and then donating cash would more than likely be advised. ■