Making a Charitable Contribution

There are benefits and limitations when you decide to donate stock.

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Why sell shares when you can gift them?

If you have appreciated stocks in your portfolio, you might want to consider donating those shares to charity rather than selling them.

Why, exactly?

Donating appreciated securities to a tax-exempt charity may allow you to manage your taxes and benefit the charity. If you have held the stock for more than a year, you may be able to deduct from your taxes the fair market value of the stock in the year that you donate. If the charity is tax-exempt, it may not face capital gains tax on the stock if it sells it in the future.[1]

Keep in mind this article is for informational purposes only. It's not a replacement for real-life advice. Make sure to consult your tax, legal, and accounting professional before modifying your gift-giving strategy.

When is donating stock a better choice than gifting cash or just selling the shares?

There are several reasons to consider donating highly appreciated stock to a tax-exempt charity. For example, you may own company stock and have the opportunity to donate some

shares. There also are potential tax benefits to consider if you donate appreciated securities that you have owned for at least one year.[2]

If you sell shares of appreciated stock from a taxable account and subsequently donate the proceeds from the sale to charity, you may face capital gains tax on any potential gain you realize, which effectively trims the tax benefit of cash donation.[3]

When is donating cash a choice to consider?

If you provide the charity with a cash gift, there may be some limitations. Cash gifts are deductible up to 50% of adjusted gross income. As an example, if a donor in the top 37% federal tax bracket gives a 501(c)(3) non-profit organization a gift of $5,000, the net cost can work out to just $3,150 with $1,850 realized in tax savings. A donor may also need to consider possible implications of state taxes in addition to federal.[2]

If you donate shares of depreciated stock from a taxable account to a charity, you can only deduct their current value, not the value they had when you originally bought them.[3]

Remember the tax rules for charitable donations. If you donate appreciated stock to a charity, you may want to review I.R.S. Publication 526, Charitable Contributions. Double-check to see that the charity has non-profit status under federal tax law, and be sure to record the deduction on a Schedule A that you attach to your 1040.[4,5]

If your contribution totals $250 or more, the donation(s) must be recorded – that is, the charity needs to give you a written statement describing the donation and its value and whether it is providing you with goods or services in exchange for it. (A bank record or even payroll deduction records can also denote the contribution.)

If your total deduction for all non-cash contributions in a tax year exceeds $500, then complete and attach Form 8283 (Noncash Charitable Contributions) to your 1040 when filing. If you donate more than $5,000 of property to a charity, you will need to provide a letter from a qualified appraiser to the charity (and by extension, the I.R.S.) stating the monetary value of the gift(s).[4,5]

Gifting cash or securities to an organization is a wonderful opportunity. But keep in mind that tax rules are constantly being adjusted, and there's a possibility that the current rules may change. Make certain to consult your tax, legal, and accounting professionals before starting a new gifting strategy if you intend to use the gift as a tax deduction.

not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

CITATIONS

Citations.

1 - Fidelity.com, October 9, 2019

2 - Forbes.com, October 19, 2019

3 - Schwab.com, August 13, 2019

4 - Vanguardblog.com, September 19, 2019

5 - IRS.gov, March 3, 2020

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