Benefits of Donating Publicly Traded Securities to Charity

A tax-smart approach to maximize your philanthropic impact

by the Charitable Strategies Group at Schwab Charitable

Publicly traded securities held for more than one year—such as stocks, bonds, exchange-traded funds (ETFs), and mutual funds—are the non-cash assets most frequently donated to charities. Why is this? It's probably because these assets are widely owned by donors and easily transferred to charities.

What's more, if you itemize deductions on your tax return instead of taking the standard deduction, donating these assets can unlock additional funds for charity in two ways. First, you potentially eliminate the capital gains tax you would incur if you sold the assets yourself and donated the proceeds, which may increase the amount available for charity by up to 20%. Second, you may claim a fair market value charitable deduction for the tax year in which the gift is made and may choose to pass on that savings in the form of more giving.

Donor-advised funds, which are 501(c)(3) public charities, provide an excellent gifting option for donations of publicly traded securities, as the funds typically have the resources and expertise for evaluating, receiving, processing, and liquidating the assets. How does gifting appreciated securities to a donor-advised fund work?

Donor

Contribute appreciated securities held over one year ❯

- Potentially eliminate capital gains tax on appreciation
- Claim current year, fair market value income tax deduction

Donor-Advised Fund

Recommend grants from your account immediately or over time ❯

- Invest account assets for tax-free potential growth

Charities

Please be aware that gifts of appreciated non-cash assets can involve complicated tax analysis and advanced planning. This article is only intended to be a general overview of some donation considerations and is not intended to provide tax or legal guidance. In addition, all gifts to donor-advised funds are irrevocable. Please consult with your tax or legal advisor.

SCHWAB CHARITABLE®

Case study: making a larger gift while increasing tax savings

To illustrate the benefits of donating appreciated securities, consider Jane, who purchased 1,000 shares of publicly traded stock XYZ five years ago at $5 per share. This gives her a cost basis of $5,000 in the stock.

XYZ stock has risen in value to $50 per share, so the total fair market value of her holdings is $50,000. Jane plans to sell her entire position in XYZ and donate the net cash proceeds to a donor-advised fund or other public charity. Assuming a 15% federal capital gains tax rate based on Jane's income level, if Jane sold the stock she would realize appreciation of $45,000 and owe an estimated $6,750 in federal capital gains taxes ($45,000 x 15% = $6,750).

In this scenario, as shown in Option 1, after paying the federal capital gains taxes, Jane's estimated net cash available for charitable giving is $43,250.

Now let's review Jane's benefits from gifting her stock directly to a donor-advised fund or other public charity, as shown in Option 2. In this scenario, Jane may be able to eliminate capital gains taxes ($6,750) while potentially claiming a current year income tax deduction for the fair market value of her stock ($50,000), assuming she itemizes her deductions.

Original cost (cost basis) of XYZ stock: **$5,000**
Federal long-term capital gains tax rate: **15%**

Fair market value of XYZ stock:
$50,000

	Option 1: Sell XYZ stock and then donate the after-tax proceeds	vs.	Option 2: Contribute XYZ stock directly to Schwab Charitable	
Long-term capital gains taxes paid	$6,750		$0	
Charitable contribution and tax deduction	$43,250	vs.	$50,000	Additional amount available to grant to charities: $6,750
Tax savings	$3,630		$12,000	Additional amount saved on taxes: $8,370

This hypothetical example is only for illustrative purposes. The example does not take into account any state or local taxes or the Medicare net investment income surtax. The tax savings shown is the tax deduction, multiplied by the donor's income tax rate (24% in this example), minus the long-term capital gains taxes paid.

Additional considerations

In addition to the potential tax benefits described above, the following considerations may apply.

1. Donate before selling.

In order to maximize the potential tax benefits described above, you should transfer your appreciated securities, held for more than one year, directly to a donor-advised fund or other public charity and should not sell the securities first.

2. Avoid prearranged sales.

You should not enter into any arrangement that would legally compel a donor-advised fund or other public charity to dispose of the securities upon receipt. This kind of “prearranged sale” could reduce or eliminate the tax benefits of making your donation. Upon receipt of the securities, the donor-advised fund or other public charity controls the asset. For most public charities, the general policy is to promptly sell contributed securities, but a charity may reserve the right to sell at any time.

3. Restricted stock rules may apply.

Executives with concentrated and/or restricted positions in a public company stock may be able to donate shares to help reduce tax exposure in their portfolios.

There are unique considerations for gifts of restricted stock that you will want to consider. For example, if your stock is restricted by legend or is “control” stock owned by an affiliate of the issuer (i.e., you are an officer, director, or 10% shareholder), then your company’s general counsel must give you permission to transfer the stock to charity. As a general rule, restricted stock must be sold in accordance with Rule 144 resale restrictions.*

Contributions of long-term held restricted stock to a public charity, including a donor-advised fund, may be deductible at fair market value as of the date of contribution, but valuation discounts may apply if restrictions are not lifted prior to gifting. A qualified appraisal may be required to substantiate the fair market value.

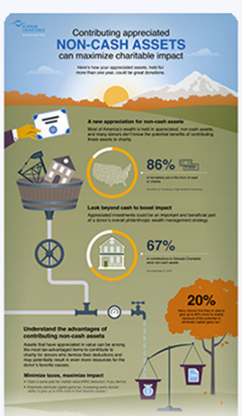
To learn more about gifts of restricted stock, click here.

4. Master Limited Partnerships have unique rules.

Master Limited Partnerships (MLPs) are an important exception to the typical fair market value deduction for publicly traded securities held for more than one year. If you have an investment in a MLP and itemize deductions, a qualified appraisal may be required to substantiate the fair market value, and your charitable deduction must be reduced by the amount of ordinary income that would have been realized if the asset had been sold at fair market value on the date contributed. For MLPs with substantial accumulated depreciation, this can greatly reduce the charitable deduction. In addition, if the partnership carries debt (as is often the case with MLPs), you may be liable for taxes.

5. Annual limits apply to charitable deductions.

Overall deductions for donations to donor-advised funds are generally limited to 50% of your adjusted gross income (AGI). The limit increases to 60% of AGI for cash gifts, while the limit on donating appreciated non-cash assets held more than one year is 30% of AGI. The IRS permits a carryover for five tax years, should your charitable deduction exceed AGI limits in a given tax year.



Interested in learning more?

The Charitable Strategies Group at Schwab Charitable is a team of professionals with specialized knowledge about non-cash asset contributions to charities. Our team stands ready to support you and your advisors, from initial consultation through asset evaluation, receipt, processing, and sale. We strive to provide unbiased guidance and frequent communication at every step of the process to help you and your advisors make informed decisions and stay aware of the time required for your transaction.

For more information about the advantages of contributing appreciated non-cash assets, you can review our infographic, read an overview article, or call us at 800-746-6216.

If you would like to learn more about Schwab Charitable donor-advised fund accounts, click here.

* Rule 144 is a regulation enforced by the U.S. Securities and Exchange Commission. The regulation provides an exemption that allows the public resale of restricted, unregistered, and control securities if a number of conditions are met. This includes how long the securities are held, the way in which the securities are sold, and the amount of securities that can be sold at a certain time.

Giving is good.
Giving wisely
is great.

For questions or assistance with philanthropic planning or charitable giving:

Visit
www.schwabcharitable.org

Call Schwab Charitable at
800-746-6216

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This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. A donor's ability to claim itemized deductions is subject to a variety of limitations, depending on the donor's specific tax situation. Where specific advice is necessary or appropriate, Schwab Charitable recommends consultation with a qualified tax advisor, Certified Public Accountant, financial planner, or investment advisor.

Schwab Charitable is the name used for the combined programs and services of Schwab Charitable Fund™, an independent nonprofit organization. The Schwab Charitable Fund has entered into service agreements with certain subsidiaries of The Charles Schwab Corporation.