Three Benefits of Giving Appreciated Stock That Your Clients Will Understand

No matter how frequently you remind clients to pause before they automatically reach for the checkbook to make their charitable gifts, many clients still give cash!

As an attorney, accountant, or financial advisor, you understand giving long-term appreciated assets is often one of the most tax-savvy ways your clients can support their favorite charities. Nevertheless, it is sometimes hard to convey that message to clients with words that stick. We can help! Try these descriptive examples to help clients see the benefits and call us when we can provide you with specific examples for your clients.

Three examples to show your clients the benefits of giving appreciated stock.

1). Sally and Bob give $100,000
Sally and Bob plan to give $100,000 to their endowment fund at the community foundation for the calendar year. Let's assume Sally and Bob have a combined adjusted gross income of $600,000, which lands them in the 35% federal income tax bracket. If they gave $100,000 in cash to their endowment fund, they could realize an income tax savings, potentially, of $35,000.

What if instead of giving cash, Sally and Bob gave highly-appreciated, publicly-traded stock, valued currently at $100,000, to their community foundation fund. Let's assume they've been holding the stock for many years, and the shares have a cost basis of $20,000. **Not only are Sally and Bob eligible for a potential income tax deduction that will save them up to $35,000, but they have also potentially avoided $12,000 of capital gains tax that they would have owed if they'd sold the stock (using a long-term capital gains tax rate of 15%).** So, it's easy to see why Sally and Bob should consider giving highly-appreciated stock instead of cash.

2) Jesse and Riley give $1 million
Jesse and Riley plan to give $1 million to community causes this year. They'll do that by adding $500,000 to their donor-advised fund at the community foundation, which in turn they will use to support their favorite charities. They'll also be making a $500,000 gift to an unrestricted fund at the community foundation to help address the region's greatest needs for generations to come. Let's assume that Jesse and Riley are in the highest federal income tax bracket because they earn multiple seven figures. **If they were to give $1 million in cash, they could save, potentially, up to $370,000 in income tax. If they gave publicly-traded stock instead of cash, assuming a $200,000 cost basis in stock valued currently at $1 million, they would still potentially save up to $370,000 in income tax, and they would also potentially avoid $160,000 in capital gains tax (based on a long-term capital gains tax rate of 20%).**

3) Taylor and Robin give $5 million

Taylor and Robin plan to give a target amount of $5 million to charity as the cornerstone of their overall philanthropy plan. They would like to use publicly-traded stock that they've held for many years, valued currently at $5 million. They would love to receive a lifetime income stream from these assets, so that the remaining assets will flow to their fund at the community foundation after their deaths. In this case, you'll explore setting up a charitable remainder trust that pays out an income stream to Taylor and Robin while they are both living and then to the survivor for the survivor's lifetime.

Let's assume that Taylor and Robin are both 55 years old. And let's assume that the stock has a very low cost basis–just $500,000–because they have held it for so long. **Depending on the IRS's applicable rates, and assuming a 5% annual payout rate paid at the end of each quarter, here's an approximate tax result if you worked with the community foundation to help Taylor and Robin establish a charitable remainder trust:**

- $1,042,550 approximate potential income tax deduction based on the present value of the gift of the remainder interest to charity
- $4,500,000 in capital gains that may not be subject to tax
- $250,000 in total payments during the first year
- Annual payments of 5% of the value of the assets in the trust, which means the income stream will fluctuate depending on the value of the assets

Following the death of the survivor of Taylor and Robin, the remaining assets will flow to **their Family Fund at the community foundation, which Taylor and Robin have already established** and which, upon their deaths, will split equally into two funds. The first fund will be a donor-advised fund for which their children will serve as advisors, and the second fund is an unrestricted endowment fund to support the community foundation's priority initiatives in perpetuity.

Because every person's situation is unique. Clients rely on trusted professionals like you and the Community Foundation of Chippewa County to offer sound options. We are happy to discuss the various tax-savvy options for charitable giving in any client situation. Please reach out.

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CONTACT: JILL HERRIGES
EXECUTIVE DIRECTOR
(715) 723-8125
JILL@YOURLEGACYFOREVER.ORG

*These examples are for illustration purposes only. Every client's situation is different, and therefore the tax strategy and tax impact will be different for each client. For example, these illustrations are based on federal income tax rates only, and you'll need to evaluate, among many other factors, the impact of state taxes. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.