Charitable Giving:

HOW TO MAXIMIZE YOUR TAX PROPERTY

It has often been said that “it is better to give than to receive.” Not everyone subscribes to this belief; however, it is easier to do so when Uncle Sam is footing part of the bill.

Subject to limitations, most charitable gifts generate a tax deduction equal to the fair market value of the property given to charity. This means that Uncle Sam is paying approximately up to 37% (2019) of the charitable gift, depending on your income tax bracket. You can obtain an even larger bang for your buck by giving appreciated property to charity. Let’s see why.

Gifts of appreciated property

Normally when you sell appreciated property, such as stock, the difference between what you paid for the stock and the amount you sold it for is subject to income tax at capital gains rates. Let’s assume you want to make a $10,000 gift to your favorite charity. You have some XYZ stock that you bought for $3,000 that has increased in value to $10,000, and you have decided to sell the stock to make the charitable gift. The sale of the stock will generate a gain of $7,000 ($10,000 sales proceeds less $3,000 cost), at a tax cost of $1,400 (assuming a 20% top rate in 2019 capital gains rate). However, the $10,000 charitable contribution will provide you with a $10,000 income tax deduction, resulting in a $3,700 tax reduction at an estimated tax rate of 37% (2019).

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Where do you stand after all this is done? The XYZ stock is gone, but you’ve made your charitable contribution and received a net tax reduction of approximately $2,300 ($3,700 benefit from the charitable deduction, less the capital gains tax of $1,400). For most taxpayers, however, there is an exemption from income tax for the gain element of appreciated property that is given to charity. Giving the XYZ stock to charity does not result in $7,000 of gain. Consequently, if you were to give the XYZ stock to charity instead of selling the stock to make the $10,000 gift, you would get the full benefit of your $10,000 charitable deduction, and no capital gains tax would be incurred. Your refund check would then approximate $3,700 ($10,000 at 37% estimated tax rate), rather than $2,300. Remember, if the charity sells the XYZ stock after receiving it from you, it will have no tax to pay. Public charities are exempt from income tax on the sale of investment securities.

Take a look at this charitable giving technique from a slightly different perspective. Let’s assume that you would like to make the $10,000 charitable contribution, but you would also like to retain a $10,000 investment in the XYZ stock. If you have an extra $10,000 cash, you can obviously give it to the desired charity. But instead, why not give the XYZ stock to charity and buy another $10,000 block of XYZ stock? This way, when the XYZ stock is eventually sold, your cost basis in the stock will be $10,000, rather than $3,000, and your eventual gain (assuming the stock does not decrease in value) will be $7,000 less.

Call today!

If you would like more information concerning this technique that can help you maximize the tax benefits of charitable giving, consult your Financial Advisor and your tax advisor.

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