

## **Charitable Giving Through Stock:**

This information maybe very useful to parish priests and parish leadership seeking contributions for capital campaigns for building, education, and endowments.

The information provided below is from the "Motley Fools" Investment page on the Internet. I find that this explanation describes in plain English the tax benefits of charitable giving of stock. Don't let the title "Motley Fools" deceive you. They are two brothers that are international known for their investment advice and dedicated to educate anyone who wants to know more about investing. They have published numerous books. Their title was designed to give them notice and the simple truth that in the day of feudalism only the court fool could tell the king the truth and not lose his head.

If you require investment advice, I urge you to check out their web page at <http://www.fool.com>, it's free.

### ***Charitable Contributions of Stock:***

If you are planning to make a relatively substantial contribution to a charity, such as a church/synagogue, college, hospital, or other qualified charitable organization, you should consider donating appreciated stock 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.

Let's look at an example: Tom and Jerry are brothers, and each wants to make a charitable contribution to his favorite charity. Tom wants to donate to his college alma mater, while Jerry wants to give to his church.

Both Tom and Jerry purchased shares in XYZ Corp. back in April 1996 for \$5,000 each. Tom and Jerry's investments now have a fair market value of \$20,000 each.

In order to make his charitable contribution, Tom decides to sell his shares in XYZ Corp. Tom realizes a gain of \$15,000 on those shares. Tom now has to deal with Uncle Sam, and will be required to fork over \$3,000 in federal taxes on this \$15,000 gain (20% capital gains rate). Tom then takes the remainder of these funds in the amount of \$17,000 and writes a check to his alma mater for this amount. Assuming that Tom is in the 28% tax bracket, Tom will realize a tax savings of \$4,760 on the charitable contribution deduction of \$17,000.

Jerry, on the other hand, has made arrangements with his church to donate his shares of XYZ Corp. directly to the church... and his church jumps at the chance to receive this donation. After the transfer, Jerry will NOT have to realize any gain or pay any tax on the \$20,000 transfer of the

stock to his church. In addition, Jerry will receive a charitable contribution for the full \$20,000 fair market value of the stock. And, assuming that Jerry is also in the 28% tax bracket, this \$20,000 charitable contribution deduction will generate tax savings of \$5,600 to Jerry.

Take a closer look at the numbers: Who "made out" better in these transactions? In Jerry's case, his charity received a full \$20,000 with which to carry out their charitable obligations, but Tom's charity received only \$17,000... almost 18% less. Also, Jerry saved a full \$5,600 in taxes on his contribution, while Tom only saved \$1,760 in "net" taxes (\$3,000 tax on the gain on the sale of the shares, less a \$4,760 tax deduction on the charitable contribution)... a whopping difference of \$3,840 in tax savings for Jerry.

So, on Tom's transaction, Uncle Sammy made out. In Jerry's transaction, both Jerry AND his charity made out. Only Uncle Sammy was the loser. Which is quite fine. Remember that tax policy is often used to drive social action... and this is a prime example. There was nothing illegal or immoral for Jerry to arrange his affairs in order to comply with the law and keep his taxes as low as possible while providing his charity with the largest possible contribution. The Supreme Court has said as much... many times.

And remember also that this technique may work for other similar contributions, from \$100 to \$1 million, depending upon your individual tax situation. So don't think that you have to be in the class of the Ted Turners or Bill Gates of the world in order to make the contribution of appreciated stock work for you from a tax standpoint.

But there ARE a few cautions: While this plan works for Jerry in the above example, it will not work if the stock has NOT been held for more than a year. If the shares were held for a year or less, the shares would be treated as "ordinary income property" for these purposes, and the charitable deduction would be limited to the stock's \$5,000 cost. So remember that if you are considering the contribution of appreciated stock, you need to make sure that the shares have been held for more than one year and qualify for the "qualified appreciated stock" deduction.

And, in addition, if the property in question is OTHER ordinary income property (such as inventory), there are special limitations that apply. Not only that, if the capital gain property is NOT stock (such as artwork, jewelry, real property, etc.), there are other special limitations that may apply to the contribution. Finally, depending on the amounts involved and the rest of your tax picture for the year, taking advantage of these tax benefits may trigger alternative minimum tax concerns. So prior to making any charitable contribution, make sure that you are on solid ground. Check the contribution first with your tax professional. At the very least, read IRS Publication 526 for additional information on the contribution limitations.

But there ARE very real tax benefits to the tax savvy charitable giver. Don't overlook them.