

DONATING STOCK TO CHARITY

By Erik Gruber

If you are thinking about making a donation to a charity, you might want to consider making a gift of appreciated stock or mutual fund shares rather than a cash donation. A gift of appreciated property often provides increased tax benefits, along with the satisfaction of contributing to a cause you believe can make a difference.

Tax Benefits

Charitable contributions of appreciated securities provide two potential income-tax advantages. The first is a charitable deduction — generally for the fair market value of the securities at the time of the contribution, subject to certain tax law limits. The second benefit is that you are not taxed on the capital gain that would result if you sold the property.

For example, let's say you own publicly traded stock currently worth \$20,000. You bought the stock over a year ago for \$15,000. If you sell the stock, you will have long-term capital gain income of \$5,000 which will be taxed. However, if you donate the stock to charity, you may claim a \$20,000 charitable contribution deduction and avoid paying capital gains tax on the \$5,000 of appreciation in the stock. The charity will be glad to receive the stock and can sell it immediately for \$20,000, generally with no capital gains consequences because of the charity's tax-exempt status.

To gain these benefits, the stock must be long-term capital gain property — stock you've owned for more than one year or stock you inherited. If the stock would generate a short-term capital gain if sold, your charitable deduction is limited to your cost basis rather than the stock's fair market value. Also of importance is the type of charity to which the gift is made. While a gift of appreciated stock to a public charity generally allows the donor to take a deduction for fair market value, a similar gift to a private foundation may result in a charitable deduction that is limited to your cost basis.

Other Considerations

While donating *appreciated* stock can give you tax advantages, you might want to think twice about giving stock that has lost value since you bought it. A better plan may be to sell stock that has lost value and donate the proceeds of the sale to the charity. For example, if you were to sell stock for less than you paid for it and donate the cash, you'd have a capital loss that you may be able to deduct as well as your charitable contribution. But, if you simply donated the stock, you couldn't deduct the loss.

In addition, before you donate stock or mutual fund shares, you should consider whether you may need the income from these securities in the future. If you think you might, you may want to contribute fewer shares. You can always donate more later on.

Making the Transfer

Most brokers and mutual fund companies will directly transfer shares to a charity for you. However, they generally require the charity to have a brokerage or fund account with their organization. Check with the charity before you initiate the transfer. If the charity doesn't have an account with your mutual fund or broker, you should explain your gift and ask the charity to open an account to receive it.

For gifts of stock, if you have a stock certificate for the amount you want to donate, you can sign the back of the certificate and deliver it to the charity. If your stock certificate is for more shares than you want to donate, you can ask your broker to have the stock certificate reissued in two or more smaller certificates. You can transfer one of these new certificates to the charity.

What if it's inconvenient to hand deliver the stock certificate? You can make your gift by mail. But take these precautions to protect yourself. Have your broker execute a letter of authorization

describing the stock certificate and the donation you are making. Then, you can send the *unsigned* stock certificate to the charity in one envelope and the letter in another.

Before you make a gift of stock or mutual funds — particularly a significant gift — be sure to talk with your financial advisor to determine how such a gift may affect your overall financial plan.

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