

Charitable Giving: Stock or Cash?

If you are considering a charitable gift, one factor to consider is whether to make the gift in the form of appreciated stock or in cash. Investors may get a little more bang for their donations by gifting long-term appreciated stock.

Consider the Potential Tax Benefits

When you gift cash or stocks, you may potentially reduce your current income tax liability. Of course, to get this benefit, you have to itemize your deductions on your federal income tax return.

The amount you actually save depends on your tax bracket. For example, in a 35% marginal tax bracket, a \$100 gift to charity could save you \$35 in taxes; in a 15% marginal tax bracket, the same gift could save \$15 in taxes.

But when you give long-term appreciated stock to a charity, you get an additional tax benefit. That's because you'll avoid paying tax on the "built-in" capital gain of the investment.

Example of Giving Stock Versus Cash

Let's assume an individual gives \$10,000 to a charity, and his/her marginal tax bracket is 33%.

Example 1 assumes the gift is a \$10,000 check.

Example 2 assumes the gift is long-term appreciated stock with a cost basis of \$2,000 and a fair market value of \$10,000 on the date of the transfer.

	<u>Income Tax Saved</u>	<u>Capital Gain Tax Avoided</u>	<u>Medicare Tax on Investment Income Avoided</u>
Example 1: \$10,000 Cash	$\$10,000 \times 33\% = \mathbf{\$3,300}$	N/A	N/A
Example 2: \$10,000 Stock	$\$10,000 \times 33\% = \mathbf{\$3,300}$	$\$8,000 \times 15\% = \mathbf{\$1,200}$	$\$8,000 \times 3.8\% = \mathbf{\$304}$

This example shows that donating long-term appreciated stock rather than cash potentially provides an "extra" tax benefit to the donor. Individuals in the higher 39.6% tax bracket could potentially receive an even larger tax benefit.

Keep in mind: This is only a hypothetical example. Actual tax benefits will vary depending on the details of your overall income tax situation, and the type of property donated. Medicare taxes apply only to certain higher income taxpayers. Also, stock holding periods, contribution deductibility limitations, and gross income thresholds may impact the ultimate tax benefit received. **Please consult your tax advisor.**