Gifts to Organizations

Excerpt from forthcoming book by Craddock Center supporter Ed Wolpert

Among the many and varied components of the US Federal Tax Code is Section 501 (c) (3), which deals with gifts to qualified non-profit organizations, such as schools, churches, hospitals. These are called charitable contributions.[1] However, the manner in which you make a contribution can affect its net cost, with no negative effects to the receiving institution.

Donate Cash or Other Assets?

Ordinarily, a person who wants to make a charitable contribution writes out a check and gives it to the organization. However, in lieu of cash, other assets can be donated, e.g. shares of stock, a car, a house, a boat, etc. If the asset that is under consideration to be donated has appreciated while you have owned it, if you were to sell it, you might be liable for capital gains taxes on the profit. But if you give it directly to the organization, you pay no tax on the appreciation, nor does the organization. Let's see how this works.

Say you want to donate $5,000 to a qualified organization, perhaps your church or synagogue. How shall you do this? As an example, let's assume that you own stock purchased for $3,000, and that is now worth $5,000. Thus, you have a $2,000 paper profit. Let's further assume that you itemize deductions, you are in the 25% marginal tax bracket, and you are eligible for paying a 15% long-term capital gains tax. What are your options?

> Option 1. Sell the stock, and give the proceeds, $5,000 in cash, to the organization. You can take the $5,000 deduction, which is worth $1,250, (25% of $5,000) against your gross income. But you'll have to pay capital gains tax on the appreciated portion of your gift, $2,000, which could be 15% or 25% depending on how long you have owned the stock.
>
> Option 2. Give the stock worth $5,000 directly to the organization, which then sells it and gets $5,000 in cash. You take the $5,000 deduction, which is worth $1,250, but you also avoid paying the capital gains tax on the $2,000 appreciation of the stock given. This saves you money.

Long-term (LT) Holding: If you have held the stock for more than one year, the stock's appreciation ($2,000) would have been taxed at 15% or, $300 (15% of $2,000). But since you gave the stock directly to the organization, you do not have to pay the tax, nor does the organization. Thus, your $5,000 donation to the organization has a net cost to you of $3,450: donation less deduction less tax saving.

Short-term (ST) Holding: If you have held the stock for less than one year, the appreciation would have been taxed at 25%, or $500 (25% of $2,000). But since you

[1] Strictly speaking, there is a difference between charity and philanthropy. Charity refers to gifts to those with immediate needs, such as food, clothing, and shelter. Philanthropy refers to gifts of a structural or more permanent nature, such as a wing of a building, a scholarship, or an endowed professorial chair. For this discussion, I'll include both terms—charity and philanthropy—within the term charity, or charitable contributions.

gave the stock directly to the organization, you do not have to pay the tax, $500. Thus, your $5,000 donation to the organization has a net cost to you of $3,250: donation less deduction less tax saving. The table below shows the comparison of donations in cash or stock.

Type of Donation	Deduction	Tax Savings	Net Cost
Cash	$1,250	none	$3,750
Stock with LT Gains	1,250	$300	3,450
Stock with ST Gains	1,250	500	3,250

<u>Other considerations</u>

- Note that regardless of whether your donation is in cash or in appreciated stock, the organization will have the full $5,000 you gave. If you give appreciated stock and do <u>not</u> itemize deductions, you can still save by not having to pay capital gains taxes on the appreciated portion of your donation.

- If you have stock that is worth less than you paid for it, and you want to sell it, do so. Then apply the loss to any gains you may have from selling appreciated stock. It makes no sense to give this stock as a donation. Neither you nor the organization would gain from this loss.

- Donations in cash or stock held less than one year are limited to 50% of your Adjusted Gross Income (AGI). Donations in stock held more than one year are limited to 30% of your AGI. Any excess over these limitations may be carried over for a maximum of five years.

- You can give other non-cash properties to a qualified organization, such as used cars or antiques. However, there might be problems in ascertaining the fair market value of the property, and issues concerning the appropriate level of taxation.

- You may be able to specify to the receiving entity how you want your donation to be used. For example, you could make a donation to a university. In the absence of any instructions to the contrary, they will probably put it in their non-restricted general fund. That would be fine with them, if it's okay with you. However, you could specify that your donation be used for a special purpose, for example, a scholarship or a prize. You could specify the major field of study for the recipient as well as other restrictions. You could have the scholarship named after someone, perhaps as a memorial. If you are considering a donation to any qualified organization, it would be worthwhile to ask them the details of their policies for receiving gifts. I'm sure they would be delighted to work with you on this.

<u>Implementation</u>

If you decide to give stock to a qualified organization, and you have the stock certificate, merely present the certificate to the receiving organization. However, most folks have their portfolios in the form of book entries in their brokerage accounts. In this case, first find out 1) the precise name of the receiving entity, 2) its account number, and 3) its DTC number.[2] Then, in writing, direct your broker to transfer the shares from your account to the receiving entity's account.

[2] This is the Depository Trust Company number, which is used for partial account transfers between two brokers.