

# Maximizing Tax Savings with Gifts of Appreciated Stock



## Gifts of Stock— Still a Smart Way to Give

Appreciated stock can be the ideal choice for donors who want to make an impact with their charitable giving at a substantially reduced cost. The secret is in the double tax benefit.

Suppose you decide to give us 100 shares of stock with a current fair market value of \$5,000. You bought the stock for only \$1,000 more than a year ago. Today, you can deduct the full \$5,000 on this year's income tax return. The \$4,000 capital gain is not taxed, even though it has "inflated" your charitable deduction. Avoiding the capital gain makes it possible to give stock at a lower actual cost to you rather than making a cash gift.



## Which Stocks Are Best to Give?

There are no definite rules for selecting stock for a charitable gift. The best choice will depend on your portfolio and your investment goals. But here are a few general rules...

*First*, look for a stock with the greatest amount of appreciation. Such a stock will give you more leverage for the untaxed gain.

*Second*, if you try to stick to a specific ratio for your portfolio (i.e. 40% stocks, 40% muni bonds, and 20% cash), you could choose to give a certain stock so you can reposition your investments, balance your overall position, and receive valuable tax relief.

*Third*, select a stock that may have lowered or cut its dividend.

All of these options require some planning, so consult your investment and tax advisors and let them know about your philanthropic ideas.

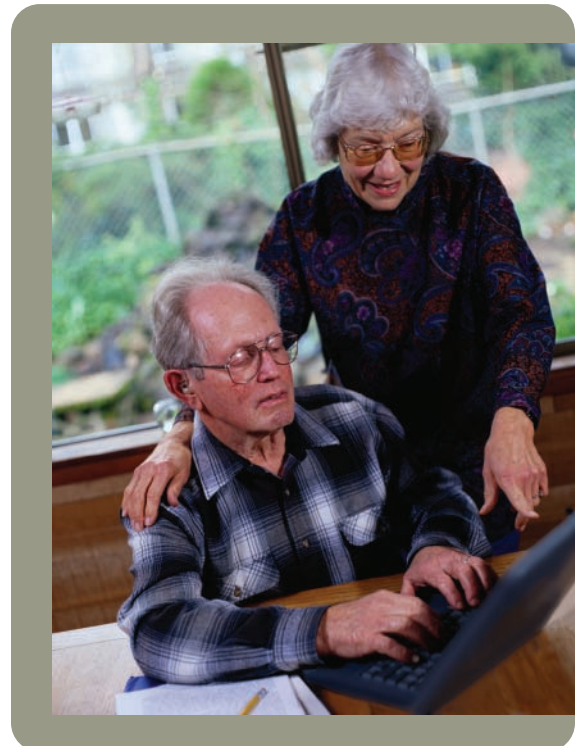
## Opportunities to Increase Your Income

In addition to outright gifts, individual stocks also are very popular for funding life income gift plans. With little, if any, valuation problems, such gifts are easy to make. What's more, the plans can generate substantial tax benefits in the year they are set up and provide a good income for the donor for life or a term of years. With some plans you can choose between a fixed and variable income.

There are many reasons for using appreciated stock to fund a life income plan. Here are just a couple:

### ***Unlock highly appreciated, low-yielding investments and increase income***

If you have participated in the financial market in the last few years, you may own stocks that pay very little in dividends. Suppose you now want more income for retirement. If you sell your stock and reinvest it to achieve a higher yield, you may face a capital gains tax liability as high as 23.8%. If you are charitably inclined, a better strategy might be to fund one of our life income gift plans with the stock. These gifts provide relief from the capital gains

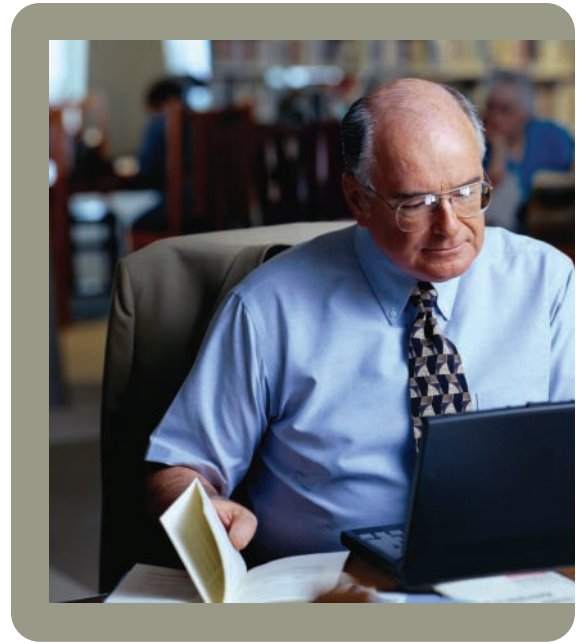


tax, and the full value of the stock is used to determine the payout of your life income gift. You also receive a substantial income tax charitable deduction, which will further improve your cash flow. Of course, you also get the personal satisfaction of knowing that your gift ultimately will have an impact on our future work.

### **Rebalance your portfolio**

If you are retired or approaching retirement, you may want to be more conservative with your investments. Fixed income often replaces growth as a primary investment objective, especially during times of economic uncertainty.

Let's say your current investment objective is a mix of 40% equities and 60% fixed income, but you are overweighted in stocks. Again, selling off stock to rebalance your investment mix might trigger a hefty and unwanted capital gains tax. You can utilize a life income plan to mitigate the tax, rebalance your portfolio and make an impact with your gift to further our good work—another good example of how



### **GIFT OF STOCK VS. CASH GIFT**

Jerry usually gives us a \$10,000 check at year's end.

This year he decided to donate stock currently valued at \$10,000 that he purchased years ago for \$1,000. He can take the full \$10,000 charitable deduction for his gift even though the \$9,000 capital gain has never been taxed. In his 39.6% tax bracket, his actual after-tax cost of the \$10,000 gift is only \$3,898. The chart to the right illustrates the tax benefits.

Note that what you save in taxes increases in proportion to the amount the stock has appreciated in value. Also keep in mind that you should have owned the stock for more than one year.

While Congress has provided additional tax savings to encourage such gifts, not everyone is aware of this opportunity. Now may be a good time to explore how to make a greater difference with your giving.

Gifts of appreciated stock are so easy to make that we can give you the details over the phone. A gift of securities is a win/win situation—for both you and us.

	<b>Gift of Cash</b>	<b>Gift of Stock</b>
Jerry's gift	\$10,000	\$10,000
Income tax savings in Jerry's 39.6% tax bracket	-3,960	-3,960
Capital gains tax savings (23.8% of \$9,000 gain)*	0	-2,142
After-tax cost of Jerry's gift	\$6,040	\$3,898

\* High-income taxpayers with more than \$200,000 in income (or married couples with more than \$250,000) face a capital gains tax as high as 23.8% (20% plus an additional 3.8% tax on net investment income such as capital gains).

charitable giving can address personal financial planning objectives as well as support worthwhile institutions.

## Annual Limit on Deducting Charitable Gifts of Stock

The maximum amount a donor can deduct in a single year for donations of long-term appreciated property is 30% of adjusted gross income. The donor can carry over any amount that can't be deducted one year into the next tax year (up to five years total).

## How Can You Benefit?

It's easy to find out. Simply write, call or email us and we'll be happy to answer any of your questions. You can even request a free, no-obligation illustration that will spell out the anticipated financial and tax benefits of a hypothetical gift. We will provide you and your advisors with the information you need to choose a gift that ensures you receive the maximum benefits and personal satisfaction.

