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Balance sheet

Charitable Donations of Appreciated Stock

By Mark L. Schroeder, CPA

If you are planning to make a relatively substantial contribution to a charity, college, etc., 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.

Example: John and Jane are twins, each of whom attended GRAD University. Each plans to donate $10,000 to the school. Each also owns $10,000 worth of stock in ABC, Inc. which he or she bought for just $2,000 several years ago.

John sells his stock and donates the $10,000 cash. He gets a $10,000 charitable deduction, but must report his $8,000 capital gain on the stock.

Jane donates the stock directly to the school. She gets the same $10,000 charitable deduction and avoids any tax on the capital gain. The school is just as happy to receive the stock, which it can immediately sell for its $10,000 value in any case.

Caution: While this plan works for Jane in the above example, it will not work if the stock has not been held for more than a year. It would be treated as "ordinary income property" for these purposes and the charitable deduction would be limited to the stock's $2,000 cost.

If the property is other ordinary income property, e.g., inventory, similar limitations apply. Limitations may also apply to donations of long-term capital gain property that is tangible (not stock), and personal (not realty).

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.

If you would like to discuss this method of charitable giving more fully, including the limitations and potential problem areas, please contact our office.