

Donating Stock Instead Of Writing a Check

By Karen R. Keatley, CFA, CFP®

What is the most tax-efficient way to donate to WIF? We know that if you donate by writing a check, your donation is tax deductible. But there's an even better way. By donating appreciated shares in a stock or mutual fund, you can deduct the contribution on your tax return and avoid capital gains taxes on the shares.

Here's an example:

Let's say you intend to donate \$2,000 to WIF. You have shares of a stock currently worth \$2,000 that you have owned for a long time (must be at least 1 year) and let's assume that the shares cost \$500 when you bought them (also referred to as your "cost basis" in accounting lingo). If you were to sell the shares, you would owe capital gains taxes of \$300 ($\$2,000 - \$500 = \$1,500$; $\$1,500 \times 20\%^1 = \300). Your after tax proceeds would be only \$1,700. You would have to come up with an additional \$300 to make your \$2,000 WIF donation.

Instead, you can donate the shares directly. This allows you to deduct the current value of the shares (\$2,000) on your tax return and never pay taxes on the capital gain.

What if you want to keep the stock in your investment portfolio? Simply buy it back with the \$2,000 you were going to donate. Your new cost basis will be \$2,000 so you will have permanently eliminated \$300 of future capital gains tax.

The process is simple. Jessica Klasinski can help you with specific instructions you will need to provide to your investment advisor or broker. Remember, shares must have been held for at least 1 year and, to get the most benefit, you should select shares with the lowest cost basis.

Note 1: Some people are subject to lower or higher capital gains rates. You should consult with your tax professional.