What is an “appreciated security” and why do people donate them?

Each year, a growing number of people take advantage of making a gift of long-term appreciated securities to their parish or another ministry in the diocese. Their specific reasons may vary, but they all have in common a desire to return to God in gratitude for the gifts they have been given. They also realize the tax advantage of making a charitable contribution of an appreciated security versus selling the stock first and gifting the cash or simply making a cash gift.

Charitable gifts of long-term appreciated securities (assets held for more than one year) are the most popular type of non-cash gifts. Donors are able to make these outright gifts and avoid paying tax on the appreciated portion of the security. Donors often choose a stock that has appreciated greatly in value and/or one that they want to lighten up a stock position in their investment portfolio. The gift transactions are, for the most part, relatively easy to make - particularly if the stocks are listed on one of the major exchanges.

There are definite tax advantages in giving appreciated securities when these securities have been held for greater than one year. In most cases, the donor can deduct, as a charitable contribution, the fair market value of the stocks, bonds and mutual fund shares as opposed to the securities’ cost basis.

In addition to being able to deduct the fair market value of securities, a donor avoids capital gains tax. This is another important tax reward provided by Congress to encourage gifts of appreciated securities. No matter how much the stocks, bonds and mutual fund shares have risen in value, none of the appreciation is taxable if the security is donated to a charity. This means a donor realizes a charitable deduction even on the gain that has never been taxed. In essence, the donor gets what amounts to a double tax benefit: the charitable deduction plus capital gains tax avoidance. It is important to remember however, that a security must have been owned for more than a year for this benefit to apply.

It might be best to illustrate the difference between selling stock and gifting the proceeds and actually gifting the stock. Jim and Sue have, for some time now, supported the Education of Seminarians Fund in the diocese by selling a stock in their portfolio. This year, after some discussion with their tax consultant, they have decided to make a gift of stock that they have held now for several years which has increased in value.

Benefit of donating stock versus selling and donating

| | | Sell Stock and Gift Proceeds | Gift Stock |
|---|---|---|---|
| Value of Asset | (a) | $ 10,000.00 | $10,000.00 |
| Cost basis | | $ (3,000.00) | $ (3,000.00) |
| Amount of appreciation | | $ 7,000.00 | $ 7,000.00 |
| Capital gain tax (15% long term capital gains tax) | (b) | $ 1,050.00 | N/A |
| Charitable Contribution deduction Assumes a 35% tax bracket | (c) | $ 3,500.00 | $ 3,500.00 |
| Real cost of making a $10,000 gift (a) + (b) - (c) | | $ 7,550.00 | $ 6,500.00 |

As you can see, the net cost to Jim and Sue for a gift of $10,000 is $7,550 if they sell the stock and gift the cash and yet only $6,500 if they gift the actual stock. Of course, you should always consult a tax consultant for advice when making a decision of this type.

For more information about making a gift of an appreciated security, please contact Mike Wescott at wescottm@cdowk.org or visit our website at plannedgiving.cdowk.org.