Donate appreciated stock for twice the tax benefits

Published on October 30, 2018

A tried-and-true year end tax strategy is to make charitable donations. As long as you itemize and your gift qualifies, you can claim a charitable deduction. But did you know that you can enjoy an additional tax benefit if you donate long-term appreciated stock instead of cash?

2 benefits from 1 gift

Appreciated publicly traded stock you've held more than one year is long-term capital gains property. If you donate it to a qualified charity, you may be able to enjoy two tax benefits:

1. If you itemize deductions, you can claim a charitable deduction equal to the stock's fair market value; and
2. You can avoid the capital gains tax you'd pay if you sold the stock.

Donating appreciated stock can be especially beneficial to taxpayers facing the 3.8% net investment income tax ("NIIT") or the top 20% long-term capital gains rate this year.

Stock vs. cash

Let's say you donate $10,000 of stock that you paid $3,000 for, your ordinary-income tax rate is 37% and your long-term capital gains rate is 20%. Let's also say you itemize deductions.

If you sold the stock, you'd pay $1,400 in tax on the $7,000 gain. If you were also subject to the 3.8% NIIT, you'd pay another $266 in NIIT.

By instead donating the stock to charity, you save $5,366 in federal tax ($1,666 in capital gains tax and NIIT plus $3,700 from the $10,000 income tax deduction). If you donated $10,000 in cash, your federal tax savings would be only $3,700.

Watch your step

First, remember that the Tax Cuts and Jobs Act nearly doubled the standard deduction, to $12,000 for singles and married couples filing separately, $18,000 for heads of households, and $24,000 for married couples filing jointly. The charitable deduction will provide a tax benefit only if your total itemized deductions exceed your standard deduction. Because the standard deduction is so much higher, even if you've itemized deductions in the past, you might not benefit from doing so for 2018.

Second, beware that donations of long-term capital gains property are subject to tighter deduction limits — 30% of your adjusted gross income for gifts to public charities, 20% for gifts to nonoperating private foundations (compared to 60% and 30%, respectively, for cash donations).

Finally, don't donate stock that's worth *less* than your basis. Instead, sell the stock so you can deduct the loss and then donate the cash proceeds to charity.

Minimizing tax and maximizing deductions

For charitably inclined taxpayers who own appreciated stock and who'll have enough itemized deductions to benefit from itemizing on their 2018 tax returns, donating the stock to charity can be an excellent year-end tax planning strategy. This is especially true if the stock is highly appreciated and you'd like to sell it but are worried about the tax liability. Please contact us with any questions you have about minimizing capital gains tax or maximizing charitable deductions.

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