Donating Appreciated Securities and Donor-Advised Funds

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When most people think about giving to a charity, the first thing that comes to mind is writing a check or giving cash. But if charitable giving is a priority for you and your family, consider donating appreciated securities as a more tax-efficient way to fulfill your charitable goals.

Appreciated securities are assets like stocks, bonds, mutual funds, and exchange-traded funds that have been held by an individual and have increased in value. Donating these securities directly to a charitable organization can be one of the most efficient ways of giving; that's because you can avoid paying the capital gains taxes that otherwise would be collected on the increased value of the stock when it is sold. And if you itemize your tax deduction, you can also deduct the fair market value of your gift.

To better understand the value, let's compare the tax benefits of donating a long-term appreciated security to a cash gift. Say you are planning on a gift of $50,000 but don't have the cash on hand; you could sell shares of stock or other securities to raise the funds, but you would need to sell significantly more stock in order to net the intended gift amount when accounting for the capital gains you'll have to pay. However, if you instead donate the number of shares equal to the market value of the gift directly to the organization, you can avoid paying the capital gains tax and still fulfill the charitable pledge. The charity can then sell the shares to generate cash, and they won't have to pay taxes on the assets because of their nonprofit status.

Nonprofits are eligible to receive appreciated securities as long as they have investment accounts. Electronic transfers can easily be set up through brokerage firms, and other securities can be transferred through agents. If you have significant holdings in a single stock, donating appreciated securities can be a very powerful technique to enhance your charitable gifting. In some cases of highly appreciated assets, the tax savings alone may be more than the amount initially paid for the investment; making these gifts a smart choice.

If the charity you wish to impact cannot accept donated securities or you would like more flexibility in how you give, then you may want to open a donor-advised fund. The advantage of a donor-advised fund is that you can:

- Donate appreciated securities and other assets in a lump sum to maximize your charitable tax benefit in a single year
- Distribute that money to nonprofits over several years
- Avoid capital gains taxes on the securities you donated

It's important to know that the benefits are not unlimited. The IRS imposes annual limitations on these donation amounts. However, you can carry over any excess deductions for up to five additional years.

Donating appreciated securities is a win-win for both you and the charities you support. More giving, less taxes, and a bigger impact on the causes that matter most to you. Your CAPTRUST advisor is ready to help you begin the process so give them a call today.
