



NORTHSTAR

FINANCIAL
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By gifting appreciated stock to a charity, you receive an immediate income-tax deduction worth the full fair-market value of the donated shares.

Giftting Appreciated Stocks – A Win-Win for you and the charity!

If you have large stock gains, you will save money by donating stock instead of cash to a charity. While your stock gains have boosted your total net worth, they've also increased your potential tax burden. When you sell appreciated stocks, you are liable for capital-gains taxes. If you give these shares to charity you won't owe the capital gains taxes and you get a bigger tax deduction!

By gifting appreciated stock to a charity, you receive an immediate income-tax deduction worth the full fair-market value of the donated shares. And, at the same time, you won't have to pay capital-gains taxes as you would if you sold the stock and gave the cash to charity. The tax savings can be substantial depending on your cost basis and tax bracket.

Consider this example:

Suppose you own XYZ stock worth \$100,000 and you paid only \$20,000 for it. If you sold the stock and gave cash you would owe federal tax of \$12,000 (\$80,000 gain times 15% tax rate), which reduces your gift and tax deduction to \$88,000.

But if you donated the stock instead to your favorite charity you could deduct the full \$100,000 stock value. This results in a bigger tax deduction (\$12,000 at 28% or \$3,360) plus you save \$12,000 in capital gain taxes, totaling \$15,360 of tax savings. Ultimately, this strategy allows you to make a \$100,000 gift at a cost of only \$60,000.

Of course, you also could donate stocks that have declined in value. But you'll be better off selling those stocks first and then donating the proceeds to charity. By selling your "losers," you'll be able to claim a capital loss, which you can apply against capital gains on your tax return.

We recommend that our clients select appreciated assets that have been held long term (more than one year) in making charitable contributions. You should also consider giving other highly appreciated assets, including marketable securities, unrestricted closely held stock, real estate and, under the right circumstances, tangible personal property such as paintings, antiques, coin collections, etc.

Instead of making an outright gift to a charity, you may also want to



A charitable remainder trust gives you another advantage.

explore the idea of putting your stocks in a charitable remainder trust ("CRT").

CRTs allow people with large estates to take advantage of a triple tax break: An income tax deduction, the avoidance of capital gains on highly appreciated assets, and no estate taxes on the charitable contribution upon your death.

A charitable remainder trust gives you another advantage. The trust can sell your appreciated stock, purchase an income-producing investment and pay you an income stream for life. Upon your death, the trust will pay out the remaining funds to the charity or charities you've chosen.

CRT's come in many shapes and sizes and can be designed to meet many different types of situations.

What about family? If you set up a charitable remainder trust, won't you be depriving your family of those assets when you pass on? In a word, yes. But that doesn't mean they have to wind up empty-handed.

By removing appreciated assets from your taxable estate, you can reduce the estate taxes your heirs will face. You can use some of the income you receive from your trust to pay the premiums on a life insurance policy for yourself, with your heirs as beneficiaries. To keep this policy out of your estate, you may want to put it in another type of trust — an irrevocable life insurance trust.

The timing of making gifts, gifting to trusts, and choosing the best asset to gift can be quite complex, so contact Northstar for assistance in establishing an appropriate gifting strategy for you and your family.

The tragic events that have been unfolding recently with the Indian Ocean Tsunami, natural disasters, and the Iraq war are putting tremendous pressure on charities and their resources. By making gifts of highly appreciated assets, both you and your charity are winners.