<THE MOTLEY FOOL CHARITY FUND>

Charitable Contributions of Stock

by Roy Lewis (TMF Taxes)

If you are planning to make a relatively substantial contribution to a charity, such as a church/synagogue, college, hospital, or other qualified charitable organization, you should consider donating appreciated stock from your investment portfolio instead of cash. Your tax benefits from the donation can be increased and the organization will be just as happy to receive the stock.

This tax planning tool is derived from the general rule that the deduction for a donation of property to charity is equal to the fair market value of the donated property. Where the donated property is "gain" property, the donor does not have to recognize the gain on the donated property. These rules allow for the "doubling up," so to speak, of tax benefits: A charitable deduction, plus avoiding tax on the appreciation in value of the donated property.

Let's look at an example: Tom and Jerry are brothers, and each wants to make a charitable contribution to his favorite charity. Tom wants to donate to his college alma mater, while Jerry wants to give to his church.

Both Tom and Jerry purchased shares in XYZ Corp. back in April 1996 for $5,000 each. Tom and Jerry's investments now have a fair market value of $20,000 each.

In order to make his charitable contribution, Tom decides to sell his shares in XYZ Corp. Tom realizes a gain of $15,000 on those shares. Tom now has to deal with Uncle Sam, and will be required to fork over $3,000 in federal taxes on this $15,000 gain (20% capital gains rate). Tom then takes the remainder of these funds in the amount of $17,000 and writes a check to his alma mater for this amount. Assuming that Tom is in the 28% tax bracket, Tom will realize a tax savings of $4,760 on the charitable contribution deduction of $17,000.

Jerry, on the other hand, has made arrangements with his church to donate his shares of XYZ Corp. directly to the churchï¿½ and his church jumps at the chance to receive this donation. After the transfer, Jerry will NOT have to realize any gain or pay any tax on the $20,000 transfer of the stock to his church. In addition, Jerry will receive a charitable contribution for the full $20,000 fair market value of the stock. And, assuming that Jerry is also in the 28% tax bracket, this $20,000 charitable contribution deduction will generate tax savings of $5,600 to Jerry.

Take a closer look at the numbers: Who "made out" better in these transactions? In Jerry's case, his charity received a full $20,000 with which to carry out their charitable obligations, but Tom's charity received only $17,000... almost 18% less. Also, Jerry saved a full $5,600 in taxes on his contribution, while Tom only saved $1,760 in "net" taxes ($3,000 tax on the gain on the sale of the shares, less a $4,760 tax deduction on the charitable contribution)ï¿½ a whopping difference of $3,840 in tax savings for Jerry.

So, on Tom's transaction, Uncle Sammy made out. In Jerry's transaction, both Jerry AND his charity made out. Only Uncle Sammy was the loser. Which is quite fine. Remember that tax policy is often used to drive social actionï¿½ and this is a prime example. There was nothing illegal or immoral for Jerry to arrange his affairs in order to comply with the law and keep his taxes a low as possible while providing his charity with the largest possible contribution. The Supreme Court has said as muchï¿½ many times.

And remember also that this technique may work for other similar contributions, from $100 to $1 million, depending upon your individual tax situation. So don't think that you have to be in the class of the Ted Turners or Bill Gates of the world in order to make the contribution of appreciated stock work for you from a tax standpoint.

But there ARE a few cautions: While this plan works for Jerry in the above example, it will not work if the stock has NOT been held for more than a year. If the shares were held for a year or less, the shares would be treated as "ordinary income property" for these purposes, and the charitable deduction would be limited to the stock's $5,000 cost. So remember that if you are considering the contribution of appreciated stock, you need to make sure that the shares have been held for more than one year and qualify for the "qualified appreciated stock" deduction.

And, in addition, if the property in question is OTHER ordinary income property (such as inventory), there are special limitations that apply. Not only that, if the capital gain property is NOT stock (such as artwork, jewelry, real property, etc.), there are other special limitations that may apply to the contribution. Finally, depending on the amounts involved and the rest of your tax picture for the year, taking advantage of these tax benefits may trigger alternative minimum tax concerns. So prior to making any charitable contribution, make sure that you are on solid ground. Check the contribution first with your tax professional. At the very least, read IRS Publication 526 for additional information on the contribution limitations.

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THE EXPERTS | WEALTH MANAGEMENT

The Benefit of Donating Your Required IRA Distributions to Charity

Make charitable donations because you want to be charitable, says WSJ Wealth Expert Michael Kitces, and qualified charitable distributions just help you get more tax leverage out of the deal. *PHOTO: CATHERINE LANE 2015/ISTOCK*

By MICHAEL KITCES
Jul 4, 2016 10:04 pm ET

Michael Kitces (@MichaelKitces) is a partner and the director of wealth management for Pinnacle Advisory Group, co-founder of the XY Planning Network and publisher of the Nerd's Eye View blog.

After nearly a decade of on-again off-again rules, last December's Protecting Americans from Tax Hikes (PATH) Act of 2015 finally made permanent the rules allowing a so-called qualified charitable distribution (QCD) from an IRA to a charity. For older IRA owners facing their annual required minimum distribution (RMD) obligations, the QCD rules provide a more tax-efficient

means to do charitable giving than simply taking RMDs and separately donating (other) money to claim a charitable tax deduction.

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The distinction is that under the QCD rules, an IRA can make a contribution *directly* from the IRA to a charity. The donation is not claimed as a deduction, though the distribution from the IRA is not reported in income, either. In fact, since the IRA itself is a pretax account, contributing directly from an IRA to a charity is the equivalent of a "perfect" pretax contribution.

Notably, the QCD rules do have two key requirements though:

1) The contribution must be made *directly* from the IRA to a public charity. As in, the check from the IRA should be made payable directly to the charity (not payable to the IRA owner who merely endorses the check to the charity).

2) The IRA owner must be at least age 70½ on the date of the gift.

The reality that the IRA owner must be at least age 70½ does significantly limit who can take advantage of the QCD rules. But that's also what makes them so appealing: because anyone who is at least age 70½ and eligible to do a QCD will also be old enough to face RMD obligations. And the QCD rules actually contemplated this; in fact, the tax code allows a QCD to also count *as* the RMD for the year.

For instance, if Jeremy had a $120,000 IRA and was 71 years old this year, he will have a $4,529 RMD obligation. If Jeremy takes the $4,529 RMD as a distribution, and separately donates that much money to charity, he will have $4,529 as (RMD) income and report a $4,529 charitable donation.

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Except the problem is that the RMD counts as "above-the-line" income, increasing his adjusted gross income, which can impact everything from the taxability of his Social Security benefits, to the income-related adjustments to his Medicare Part B and Part D premiums, while the charitable contribution may not even be useful if Jeremy is already claiming the standard deduction.

By contrast, if Jeremy just distributes the $4,529 from his IRA *directly* to the charity, the IRA income never impacts his Social Security benefits and Medicare premiums, and it doesn't matter if he claims a charitable deduction or not, because the money is already the equivalent of a perfect pretax contribution when it left his IRA.

Notably, the QCD rules do not limit IRA giving to "just" the amount of your annual RMD. You can contribute less (and take an RMD for the rest), or more (up to a maximum of $100,000 per taxpayer every tax year). Though it doesn't make sense to do a QCD for more than you were going to donate to charities that year in the first place; while tax benefits are nice, you won't finish with *more* money by giving a dollar away and getting a tax deduction for a portion of that dollar. So do your charitable giving because you want to be charitable, first; the QCD rules just help you get more tax leverage out of the deal.

Ultimately, it's important to note that for those making significant charitable contributions, it's still even *more* tax-efficient in most situations to donate "appreciated securities" (investments that have a gain) instead of doing a QCD. The reason is that a QCD may be a perfect pretax donation, but contributing investments with a large gain allows you to *permanently* avoid the capital-gains taxes *and* get a charitable deduction for the contribution. Donating investments also allows for a wider range of charitable giving vehicles, including using charitable remainder trusts or a donor-advised fund (neither of which are permitted for a QCD).

Nonetheless, for those who are old enough to face unavoidable RMDs, and are doing charitable giving anyway, taking advantage of the QCD rules is a great way to kill two birds with one stone.

TAX ADVANTAGED GIVING

APPRECIATED CAPITAL GAIN PROPERTY: Tax benefits from a donation can be increased when you donate **appreciated capital gain propert**y (i.e. land, stocks and mutual funds, jewelry, artwork) **held more than one year**. The itemized deduction for the property is equal to the fair market value of the donated property. If the property is "gain" property, the donor does not have to recognize the gain on the donated property. This results in a doubling of the tax benefits – a charitable deduction plus avoiding tax on the appreciation in value of the donated property. The key requirements are that the property must have been owned for more than one year and that the **property itself be donated** to the qualifying charitable organization. (Adjusted gross income limitations may affect the deductibility of itemized deductions, including charitable giving.)

[If on the other hand you have capital gain property that has lost value, you would in that case prefer to sell the property yourself to claim the loss and then donate the proceeds from the sale to the qualifying charitable organization.]

IRA REQUIRED MINIMUM DISTRIBUTIONS: A tax benefit of donating your required IRA distribution also exists for those required to take distributions from their IRAs. The two requirements are that the contribution **must be made directly** from the IRA to a qualifying charity and the IRA owner must be **70 and ½** on the date of the gift. The donation is not claimed as a deduction; however, the distribution is not reported in income either. Generally a required minimum distribution counts as an increase to adjusted gross income and can impact the taxability of Social Security benefits and other income-related adjustments. Charitable contributions may not have a benefit either if a taxpayer is already claiming the standard deduction. By distributing the required minimum deduction directly to the charity, it isn't included in income for Federal or State taxation and also is not included as an itemized deduction.

The above is general information. If after consulting with your tax advisor regarding your individual tax situation, you wish to support the Safe, Strong and Sacred Spaces campaign by donating appreciated stock or making a direct transfer from your IRA, it's easy. Your financial advisor may contact Monica or Amy at David Hibschman's Edward Jones office in Grandville, 616-249-3865, to obtain transfer information.

TAX ADVANTAGED GIVING

APPRECIATED CAPITAL GAIN PROPERTY:

Examples: Land, Stocks and Mutual Funds, Jewelry, Artwork

Must be held more than one year

Property itself must be donated

Benefits:

- Itemized deduction for the fair market value of the donated property
- If the property is "gain" property, no gain recognized on the increase in value

IRA REQUIRED MINIMUM DISTRIBUTIONS:

Available for those required to take distributions from their IRAs (Age 70.5 and above)

Transfer must be made directly from the IRA to a qualifying charity

The IRA owner must be at least 70 and ½ on the date of the gift

The distribution is not included in income or as an itemized deduction

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