

Stock Donation to Charity

This article is a general overview of some donation considerations for stock, for stock mutual funds, or Exchange Traded Funds and is not intended to provide tax or legal guidance. Please consult with your tax or legal advisor for specific advice.

Case study: making a larger gift while increasing tax savings

To illustrate the benefits of donating appreciated securities, consider Harold, who purchased 1,000 shares of publicly traded stock XYZ five years ago at \$5 per share. This gives him a cost basis of \$5,000 in the stock. XYZ stock has risen in value to \$50 per share, so the total fair market value of his holdings is \$50,000. Harold plans to sell his entire position in XYZ and donate the net cash proceeds to a public charity. Assuming \$100,000 of ordinary income, the itemized deductions of \$20,000, a 15% federal capital gains tax rate based on Harold's income level and a 24% income tax rate, if Harold sold the stock he would realize appreciation of \$45,000 and owe an estimated \$6,750 in federal capital gains taxes ($\$45,000 \times 15\% = \$6,750$). In this scenario, as shown in Option 1 below, after paying the federal capital gains taxes, Harold's estimated net cash available for charitable giving is \$43,250.

Now let's review Harold's benefits from gifting his stock directly to a public charity, as shown in Option 2. In this scenario, Harold may be able to eliminate capital gains taxes (\$6,750) while potentially claiming a current year income tax deduction for the fair market value of his stock (\$50,000), assuming he itemizes his deductions.

	Not Itemizing	Itemizing	Option 1 – Sell the stock, donate cash	Option 2 – Gift the stock to charity
Ordinary Income	\$100,000	\$100,000	\$100,000	\$100,000
1,000 shares of stock			Sell for \$50,000	Gift the Stock
LT Cap Gains 15%			6,750	0
Charitable Contribution			\$43,250	\$50,000
Itemized Deduction	\$12,950	\$20,000	\$63,250 (20,000+43,250)	\$70,000 (20,000+50,000)
Taxable Income	\$87,050	\$80,000	\$36,750	\$30,000
24% Tax	\$20,892	\$19,200	\$8,820	\$7,200
Capital Gain			\$6,750	
Total Tax	\$20,892	\$19,200	\$15,570	\$7,200

Qualified Charitable Distribution from an Individual Retirement Account

A QCD is a direct transfer of funds from your IRA custodian, payable to a qualified charity. QCDs can be counted toward satisfying your required minimum distributions (RMDs) for the year, as long as certain rules are met.

In addition to the benefits of giving to charity, a QCD excludes the amount donated from taxable income, which is unlike regular withdrawals from an IRA. Keeping your taxable income lower may reduce the impact to certain tax credits and deductions, including Social Security and Medicare.

Also, QCDs don't require that you itemize, which, due to the recent tax law changes, means you may decide to take advantage of the higher standard deduction but still use a QCD for charitable giving.

Can I make a QCD?

While many IRAs are eligible for QCDs—Traditional, Rollover, Inherited, SEP (inactive plans only), and SIMPLE (inactive plans only)* —there are requirements:

- You must be 70 ½ or older to be eligible to make a QCD (effective 2020).
- QCDs are limited to the amount that would otherwise be taxed as ordinary income. This excludes non-deductible contributions.
- The maximum annual amount that can qualify for a QCD is \$100,000. This applies to the sum of QCDs made to one or more charities in a calendar year. (If, however, you file taxes jointly, your spouse can also make a QCD from his or her own IRA within the same tax year for up to \$100,000.)
- For a QCD to count towards your current year's RMD, the funds must come out of your IRA by your RMD deadline, generally December 31.
- Contributing to an IRA may result in a reduction of the QCD amount you can deduct. (The aggregate amount of deductible IRA contributions you make to your IRA after you turn 70 1/2 will reduce the amount of the QCD that is not includible in your gross income.)

Any amount donated above your RMD does not count toward satisfying a future year's RMD. Funds distributed directly to you, the IRA owner, and which you then give to charity, do not qualify as a QCD.

What kind of charities qualify?

The charity must be a 501(c)(3) organization, eligible to receive tax-deductible contributions.