



Gift & Estate Planning

Stewarding the Giver **and** The Gift™ >>

GIVING STOCKS & MUTUAL FUNDS

Making the Most of Your Charitable Giving

If a trusted friend told you that they could show you a way to realize a savings of up to 15% on all contributions made to charity, would you believe them? Would you be interested? For years now, donors who have made gifts of appreciated securities (stocks, mutual funds, and bonds) as part of their charitable giving practice have accomplished essentially this. By transferring ownership of appreciated securities, they are able to claim a charitable income tax deduction for its current full market value, but avoid the incurrence of capital gain tax (a rate of as much as 15%) that they would owe if the stock were sold. As you can see, this strategy is an excellent way to leverage your giving in support of Focus on the Family and other ministries. If you own stocks or mutual funds that have increased in value and that you have held for more than one year, you too may want to consider using these assets, rather than cash, to fund your giving.

Can you share an example of how this works?

Example: Bob and Sarah Johnson purchased 50 shares of ACME Corporation in 1991 at a cost of \$1,000. Over this time it has appreciated significantly and today is valued at \$10,000. The Johnsons are in the 25% federal income tax bracket and have prayerfully committed to making gifts totaling \$10,000 this year. They have always given cash, but are interested in seeing if giving this asset instead would be more effective. Let's look at the options available to them:

	<u>Option A</u> Give \$10,000 in Cash	<u>Option B</u> Sell Securities & Give Cash	<u>Option C</u> Give Securities Outright
Gift Value	\$10,000	\$10,000	\$10,000
Charitable Deduction Allowed	\$10,000	\$10,000	\$10,000
Income Tax Savings	\$2,500	\$2,500	\$2,500
Capital Gains Tax Saved or Paid (15% tax rate)	N/A	\$1,350 <u>Paid</u>	\$1,350 <u>Saved</u>
Total Tax Savings	\$2,500	\$1,150	\$3,850

The Johnsons are pleased to learn that although they can claim the same charitable deduction whether giving cash or securities, they can save an additional \$1,350 in capital gain tax avoidance by giving their ACME Stock.

Are some appreciated securities better to give than others?

Capital gains taxes are assessed taking into account several factors and because of this, it is important to carefully select the best asset to fund your charitable giving. As a general rule, however, the best choice is to donate a security that would be subject to the highest rate and dollar amount of capital gains tax, were you to sell it.

By way of example, let's assume that you wish to make a significant gift of \$20,000 to your favorite ministry. You are considering gifting one of 2 different stocks (each currently valued at \$20,000) that you purchased ten years ago: Stock A for \$5,000, and Stock B for \$10,000. Since you are in the 35% income tax bracket, both would be subject to a capital gains tax rate of 15% if you were to sell them. Because, however, Stock A has experienced the greatest gain, more taxes would be owed on it, than on Stock B. In this case then, choosing to donate Stock A would cause you to realize the greatest tax savings. The following chart helps to illustrate.

	Gift of Stock A	Gift of Stock B	Difference
Stock (Gift) Value	\$20,000	\$20,000	\$0
Cost Basis	\$5,000	\$10,000	\$5,000
Taxable Gain	\$15,000	\$10,000	\$5,000
Income Tax Savings (35% rate)	\$7,000	\$7,000	\$0
Capital Gains Tax Savings (15% rate)	\$2,250	\$1,500	\$750
Total Tax Savings	\$9,250	\$8,500	\$750

As you can see, by choosing to donate Stock A, the donor will save an additional \$750, then if they had selected Stock B.

What if I have a security that I think will continue to perform well? Shouldn't I hold onto it ?

One of the beauties of making this kind of gift is that you can donate the stock, then immediately repurchase it, thereby “keeping” it for all intents and purposes. Suppose you make a gift of \$5,000 using a stock with a cost basis of \$1,000. You are able to claim a charitable deduction of \$5,000, as well as avoid the capital gains tax on the \$4,000 appreciation. You can then use the \$5,000 in cash that you would have otherwise used to fund your gift and repurchase the same security. In doing so, you will have the same investment, but with a new and higher cost basis.

What if I have securities that have a poor future performance outlook and are currently valued at less than what I paid for them? Should I consider donating them?

Securities that have declined in value since the time they were purchased should generally not be gifted directly to a charity. The reason for this is that in transferring ownership (rather than selling them yourself) of these depreciated securities, you will likely forfeit the benefit of claiming a capital loss against your federal income tax. In these circumstances, it is usually better to sell the security yourself and then use the proceeds to make your charitable gift.

I have securities that have appreciated as part of my retirement plan with my employer. Am I able to gift these assets to charity?

At this time, securities that have been purchased under a tax-exempt, qualified retirement plan can only be given to charity upon the plan owner's death. Because popular retirement plans such as 401(k), Keogh, 403(b), and traditional IRA's are funded with pre-tax contributions, they cannot be transferred to charity during life.

If I decide to make a gift of appreciated securities to Focus on the Family, how do I go about doing so?

Mutual Fund Transfers: These transfers can be complicated. Please call Focus on the Family's Gift & Estate Planning department at 1-800-782-8227 to find out how to transfer specific mutual funds.

Stock Transfers: Please remember that once a transfer has been completed, we'd like you to contact us and let us know. This is very important, especially if the gift has been transferred electronically to our account or a certificate has been issued in Focus on the Family's name, since your name will not be associated with your donation. We would also like to say “thank you” personally, as well as provide you with an acknowledgment letter for your tax purposes. Below are directions for making transfers of stock:

- ***DTC Transfer***– This is a convenient way to transfer your securities. Simply instruct your broker to electronically transfer your securities out of your account into Focus on the Family’s *Merrill Lynch* account. Your broker will need the following information:

Brokerage firm: Merrill Lynch
Account name: Focus on the Family
Account number: 210-04035
DTC number: 5198

- ***Certificate Transfer***– Transferring your certificate can be as easy as endorsing the back of the certificate and sending it by certified mail to Focus on the Family. You must sign the certificate in front of a bank officer to obtain a *Medallion Signature Guarantee* (notary public stamps are not an acceptable guarantor for stock certificates.) A medallion signature guarantee is required on all certificates. Be sure to endorse the certificate exactly as your name(s) appears on the front. For example, if your certificate is listed as “John F. and Mary P. Jones,” you will need to sign the certificate exactly as “John F. Jones” and “Mary P. Jones.”

Next, write Focus on the Family’s **tax identification number, 95-3188150**, in the box on the back requesting a social security number or other identifying number of assignee. Mail it by certified mail to:

Focus on the Family
Attn: Gift & Estate Planning
8605 Explorer Drive
Colorado Springs, CO 80920

- ***Employee Owned Stock in Non-Retirement Plans***– If you purchased stock from your employer (e.g. non-retirement E.S.O.P.) you can instruct them to issue a certificate in Focus on the Family’s name. They will need our tax identification number, and our address as mentioned above.

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