



Gift & Estate Planning

Giving Stocks & Mutual Funds Making the Most of Your Charitable Giving

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 15%-20% 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 essentially accomplished this. By transferring ownership of appreciated securities, they are able to claim a charitable income tax deduction for its current fair market value while also avoiding the incurrence of long-term capital gains tax (15-20% depending on their tax bracket) 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 appreciated 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.

Here's an example of how this works:

Jerry and Jane Smith purchased 50 shares of ACME Corporation 25 years ago at a cost of \$1,000. Over this time, it has appreciated significantly and today is valued at \$10,000. The Smiths 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>	<u>Option B</u>	<u>Option C</u>
	Give Cash	Sell Securities and Give Cash	Donate Securities to Charity
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 on \$9,000 @ 15%	N/A	\$1,350 (Paid)	\$1,350 (Saved)
Total Tax Savings	\$2,500	\$1,150	\$3,850

The Smiths 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 gains tax avoidance by donating their ACME Stock.

Note: Higher income earners may be subject to 20% capital gains tax rate and/or Medicare Investment Surtax.

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, 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 charity. You are considering gifting one of two different stocks (each with a current value of \$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. However, because Stock A has experienced the greatest gain, more taxes would be owed on it, than on Stock B. In this case, you would realize the greatest tax savings by choosing to donate Stock A. 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 over Stock B, the donor will save an additional \$750.

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 continuing to own the stock, but with newly purchased basis. 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?

Generally, securities that have declined in value since the time they were purchased should not be gifted to a charity. The reason for this is that in transferring ownership of these depreciated securities, you will likely forfeit the benefit of claiming a capital loss deduction against your federal income tax. In these circumstances, it is usually better to sell the depreciated security 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 by naming the charity as the beneficiary. 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 800-782-8227 to find out how to transfer mutual funds.

Stock Transfers:

- **DTC Transfer** – If you have your shares of stock in a brokerage account, simply instruct your broker to electronically transfer your securities from your account into Focus on the Family's *Charles Schwab* or *Merrill Lynch* account by providing the following account information:

Charles Schwab

FBO: Focus on the Family

DTC #: 0164 Code 40

Account #: 8391-9885

Merrill Lynch

FBO: Focus on the Family

DTC #: 5198

Account #: 210-04035

- **Certificate Transfer** – If you own paper certificates, transferring 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). Be sure to endorse the certificate exactly as your name(s) appears on the front of the certificate. For example, if your certificate lists your names as "John F. and Mary P. Jones," your signatures should read "John F. Jones" and "Mary P. Jones."

Next, write Focus on the Family's **tax identification number: 95-3188150**, on the back of the certificate in the box requesting a social security number or other identifying number of assignee, then mail it by certified mail (it is suggested you insure this for 2% of the value of the stock) to:

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

- **Direct Registration Shares (DRS)** – Contact the transfer agent for your specific security to obtain the form required to transfer shares to Focus on the Family.

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Appreciated Securities Transfer Form

When making a gift of appreciated securities to Focus on the Family it is **important** that you **contact us in advance** so that your gift will be properly credited when received and so that we may provide you with an acknowledgment letter for your tax records.

This form is to assist you in contacting Focus on the Family with the details of your transfer. When completed, you may either mail it to us at: Focus on the Family, Attn: Gift & Estate Planning, 8605 Explorer Drive, Colorado Springs, CO 80920; fax it to 719-548-5849; or send this information in an email to FocusGiftPlanning@fotf.org. If you have any questions or need further information, please call our Gift & Estate Planning team at 800-782-8227 or 719-548-5839.

Date: _____

Donor Name(s): _____

Mailing Address: _____

City/State/Zip: _____

Daytime Phone: _____ Email: _____

Quantity/Name/Symbol of Securities being transferred:

_____ # Shares of _____

Designation: General Fund Other: _____

Donor's brokerage firm: _____

Broker's name: _____ Phone Number: _____

Stock will be transferred to Focus on the Family's account at:

Charles Schwab Merrill Lynch