

## FROM THE PROFESSIONALS

*In this section, we offer finance and investing tips from different members of the financial industry. The opinions represented here are those of the author and may not reflect those of the Pinchot Institute.*

### Do Good and Trim Taxes

*Julian Block*

When we contribute to the Pinchot Institute for Conservation and other favorite causes, most of us go the easiest, most familiar way and simply write checks or use credit cards. We receive income-tax deductions, and the charities receive money.

Benefactors who intend to make major gifts should become knowledgeable about other ways to give away their money besides just sending checks. For instance, donors can reap better tax breaks with contributions of appreciated properties that have been owned for more than 12 months and would be taxed as long-term capital gains were they to be sold. Some examples are shares of individual stocks, mutual fund shares, bonds and real estate.

Donating appreciated property is a worthwhile strategy. The measure of the charitable deduction is the asset's appreciated value on the donation date, undiminished by the federal and state taxes that become due on the profit if you sell the property, effectively decreasing the contribution's cost. The IRS siphons off a maximum of 15 percent of gains from sales of investments, a levy that drops to 5 percent for someone in the two lowest income-tax brackets of 15 and 10 percent. Add to Uncle Sam's take whatever his nephews and nieces exact for taxes at state and local levels.

The *Wall Street Journal* of Nov. 22, 1991, notes that "This tax-saving strategy is immortalized in the 1959 film 'The Young Philadelphians,' starring Paul Newman" as an ambitious attorney involved with the elite of The Main Line. The Newman character's "suggestion of giving appreciated stocks to the local Society for the Prevention of Cruelty to Animals helps him win the business of Mrs. J. Arthur Allen, an eccentric millionaire, who arrives at his

office with her precious pooch Carlos in her arms." Mrs. Allen was played by Billie Burke, best known to television audiences as Glinda the Good Witch of the North, in "The Wizard of Oz."

While giving appreciated assets might seem to be an appropriate technique only for Mrs. Allen and her well heeled acquaintances, it can make sense for people of far more modest means. Let's say you intend to fulfill a \$10,000 pledge to the Pinchot Institute. Your long-term holdings include some shares of stocks that you acquired for \$4,000 and are about to unload for \$10,000. To reap a perfectly legal double benefit, contribute stock worth \$10,000, rather than the same amount of money. Going the stock route makes no difference to the Institute, a tax-exempt entity that incurs no taxes when it sells the shares and ends up with close to the same amount of money. But it does make a decided difference in the size of your tax tab. Assuming you are in a combined federal and state bracket of 30 percent, a charitable-gift deduction of \$10,000 cuts taxes by \$3,000. In addition to that, you sidestep the taxes that are due on the \$6,000 gain if you sell the stock—a federal levy of as much as \$900 and whatever your state exacts.

Forget about any additional tax break for donations of shares owned less than 12 months. The IRS restricts write-offs to what you paid for them or their current value, whichever is less.

If you are unsure whether to relinquish your position in some appreciated stock, donate the stock and use the money that you would have otherwise donated to buy back the shares for their current market price. That way, tracking the numbers in the example, you preserve a contribution deduction of \$10,000, as well as dodging tax on

the \$6,000 gain. Moreover, brokerage commissions aside, a repurchase of the stock makes it possible for you to measure any gain or loss on a subsequent sale against the new, higher cost of \$10,000, not the original one of \$4,000.

Gifts of stock or other property count as deductions for this year only if you complete them by Dec. 31, and it can take time to do the legal paperwork. If you unconditionally deliver or mail a properly endorsed stock certificate to the Institute, the donation is considered completed on the date of delivery or mailing, provided the certificate is received in the ordinary course of the mails. (It is advisable to use certified mail and request a certified mail receipt.) A different rule applies if you deliver the certificate to your bank or broker or to the issuing corporation as your agent for transfer into the name of the Institute. The donation is not completed until the date the stock is transferred on the corporation's books — a process that could take quite a while.

The need to monitor the calendar carefully was made expensively clear to Joseph Alioto, a lawyer and former mayor of San Francisco, who donated real estate. The United States Tax Court held that he did not complete his donation by Dec. 31 of the year under review. While the deeds were executed in Dec., they were not recorded until well beyond the close of the year, and the recording date constituted the delivery date.

It's a good idea to check with a tax expert before you make sizable contributions, especially if you plan to donate appreciated property. The IRS wants a written appraisal if you claim a deduction of more than \$5,000 for any gift of property (over \$10,000 in the case of a stock in a closely held company). But it does not ask for an appraisal of shares of publicly traded companies. Stock markets determine their value daily.

The tax code clamps some ceilings on the deductions available for contributions. In general, you can deduct up to 50 percent of your adjusted gross income for gifts of cash to most charities, such as churches and schools. But there can be limitations of 30 percent or even 20 percent of your adjusted gross income on the amount you can claim for contributions of appreciated investments. Any gifts in excess of the limits cannot be claimed on this year's return, although they can be claimed during the next five years, subject to the annual limits. Five years should be sufficient time unless you make substantial future donations or your income nose-dives.

On no account should you donate stocks or other investments that have dropped in value since their purchase. Their donation-date value determines the amount of your charitable deduction. Worse still, you cannot write



off the losses. Instead, sell the investments and donate the proceeds, a tactic that allows you to deduct the contributions and claim capital losses that reduce or even erase taxes on capital gains or ordinary income — salaries, business profits, pensions and interest, for instance.

Let's say your long-term investments include some shares you bought for \$15,000 that are now worth \$10,000. If you donate the shares, \$10,000 is the cap on your charitable deduction. If you sell the shares and donate the proceeds, you are able to deduct the \$10,000 and claim a long-term capital loss of \$5,000.

What if sales of investments result in no gains or they are less than losses? Then use excess losses to offset as much as \$3,000 (\$1,500 for married couples who file separate returns) of ordinary income. Any unused capital losses above \$3,000 for 2006 can be carried forward into 2007 and beyond, should that prove necessary.

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