From the Professionals

From the Professionals is a tri-annual column of finance and investing tips from different members of the professional services industry. The opinions represented here are the writer's own, and do not reflect those of their affiliated firms or of the Pinchot Institute.

Do Good and Cut Taxes

Julian Block, J.D., L.L.M.

Most of us go the easiest, most familiar way and just write checks when we make charitable contributions. So the charity gets the cash; donors get to deduct those amounts.

But anyone who plans to donate a sizable sum should be aware of another way that can save considerably more taxes. Instead of sending checks, a savvier strategy is to donate appreciated properties—stocks, mutual fund shares, real estate or other investments that have gone up in value since their purchase and, as you have owned them for more than 12 months, would be taxed long-term capital gains when they are to be sold.

In this case, you get a double dip of tax savings: First, you can deduct the assets' current market value; second, you avoid all of the capital gains taxes. In the end, you lose a maximum of 20% of your gain to federal taxes—a levy that drops to 10% if you are in the 15% tax bracket—plus applicable state income taxes.

EXAMPLE. Suppose you intend to give $20,000 to the Pinchot Institute. Also assume that your long-term stockholdings include some shares that you acquired for $8,000 and are about to unload for $20,000.

You reap significant tax benefits by contributing stock worth $20,000, rather than the same amount of cash. 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 cash. But it does make a decided difference in the size of your tax tab. Besides the savings generated by a deduction for a $20,000 cash gift, you sidestep the tax as much as $2,400 that is due on the $12,000 gain if you sell the stock.

STRATEGY. Uncertain about whether to surrender your position in some appreciated stock? Then consider donating the stock and using 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 charitable deduction of $20,000, as well as eluding tax on the $12,000 gain. Moreover, brokerage commissions aside, a repurchase of the stock enables you to measure any gain or loss on a subsequent sale against the new, higher cost of $20,000, not the original one of $8,000.

PAPERWORK. For gifts of stock or similar property to count as deductions for this year, you must complete delivery of those donations by December 31. Make sure to allow enough time for completion of 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 mail. But if you deliver the certificate to your bank, broker or 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.

Julian Block is a nationally recognized attorney who has been singled out by the New York Times *as a "leading tax professional" and by* The Wall Street Journal *as an "accomplished writer on taxes." Block is well known for his ability to translate complicated tax laws into plain English and to offer simple, tax-saving strategies through his nationally syndicated column, "The Tax Advisor," and through numerous books. His advice can also be found on websites, such as keen.com.*