

Charitable Contributions of Appreciated Assets (Stocks, Bonds, Mutual Funds, etc.)

Prepared for the South Holland Master Chorale, a 501(c)(3) charitable organization

Donating appreciated assets to a charitable organization benefits both the organization and the donor.

The greatest tax savings for the donor is achieved by donating appreciated, long-term assets.

- **An appreciated asset** means the asset's *Fair Market Value (FMV)* is greater than the donor's cost.
- **The charitable organization accepts the donation at the Fair Market Value (FMV) of the asset.**
- **The donation may reduce the donor's taxable income**, if the donor itemizes deductions.
- **Gain (ordinary or capital) on the donation of the asset is not taxed**, even if the donor does not itemize.

The donor's charitable donation deduction (on their tax return) is calculated using the terms defined below. The term "property" in these descriptions refers to the stock, bond, mutual fund, or other asset.

Fair Market Value (FMV): Stocks, bonds and mutual funds are generally valued at the publicly quoted price for that investment through brokerage houses or markets. Donated property that does not have an established market value requires an appraisal.

Cost or Basis: Assets have a cost or basis that is the sum of the purchase price of the property plus any fees associated with that purchase.

Short-term or Ordinary Income Property: This is property that is *held for one year or less* by the donor.

Long-term or Capital Gain Property: This is property that is *held for more than one year* by the donor.

Capital or Ordinary Gain (Loss): The gain (loss) is **FMV** minus **Basis**; it is a capital gain if it is long-term property; it is an ordinary gain if it is short-term property. Ordinary gains are taxed like earned income.

Caution: *When donating appreciated assets to a charitable organization, be sure to have the asset directly transferred to the organization.*

- **Do not "sell" the stock (for example) and then donate the proceeds to the organization.** Instead have your investment custodian "**transfer ownership**" of the stock certificates to the organization.
- **If you "sell" the stock yourself, you will owe taxes on any capital or ordinary gain on the stock sale.** The donor will not owe the taxes on any gains when your custodian "transfers ownership" of the donated stock.

Examples:

Type of Donated Property	Donation: Fair Market Value (FMV)	Donor's Cost or Basis	Charitable Donation Calculation	Allowed Deduction for taxes	Notes for Donor on Charitable Deduction and Tax Impact
Long-term appreciated asset	\$3,000	\$1,200	FMV	\$3,000	Best Situation: <i>Avoided taxable capital gains</i> of \$1,800; Allowed a charitable donation at FMV
Short-term appreciated asset	\$3,000	\$1,200	FMV minus Ordinary Gain	\$1,200	<i>Avoided taxable ordinary gains</i> of \$1,800; Allowed a limited charitable donation (Cost or Basis)
Long- or short-term asset where FMV is less than cost	\$3,000	\$3,500	Limited to FMV	\$3,000	Cannot report \$500 loss on donation. Recommended: <i>Sell asset and take a tax loss, then make a \$3,000 cash donation</i>

Added Caution: Special rules apply to **Donor-Advised Funds**, where the donor retains control over how the funds are used by the charitable organization. In those cases, the charitable deduction may not apply.

These are general tax guidelines. Consult your CPA or Tax Advisor for your personal situation.