Charitable Giving: Stock or Cash?

Millions of Americans give to their favorite charities every year. Gifts of cash are probably the most common type of gift. However, many individuals find that it is beneficial to make charitable gifts using long-term appreciated stock. Here, we briefly compare these two popular methods for making charitable contributions.*

Comparing the Tax Benefits

Cash gifts and stock gifts both allow you to take a charitable income tax deduction, based on the value of your gift. Your generosity is potentially rewarded by a reduction in your current income tax liability. To realize this benefit, you must itemize deductions on your federal income tax return. The amount you actually save in taxes will vary, depending on your tax bracket. For example, in a 35% marginal tax bracket, a $100 gift to charity could save $35 in taxes; in a 15% marginal tax bracket, a $100 gift to charity could save $15 in taxes.†

When you give long-term appreciated stock to charity, you get an additional tax benefit, because you have avoided paying tax on the "built-in" capital gain.

Examples: Giving Stock vs. Cash

Let's assume a $10,000 charitable gift by an individual who itemizes deductions and whose marginal tax bracket is 33%.

Example 1 assumes a gift by check of $10,000.

Example 2 assumes a gift of long-term appreciated stock with a cost basis of $2,000 and a fair market value of $10,000 on the date of transfer.

	Income Tax Saved †	**Capital Gain Tax Avoided**	**Medicare Tax on Investment Income Avoided †**
Example 1: $10,000 Cash	$10,000 x 33% = **$3,300**	N/A	N/A
Example 2: $10,000 Stock	$10,000 x 33% = **$3,300**	$8,000 x 15% = **$1,200**	$8,000 x 3.8% = **$304**

Now let's assume the same gift is made by an individual in a marginal 39.6% tax bracket:

	Income Tax Saved †	**Capital Gain Tax Avoided**	**Medicare Tax on Investment Income Avoided †**
Example 1: $10,000 Cash	$10,000 x 39.6% = **$3,960**	N/A	N/A
Example 2: $10,000 Stock	$10,000 x 39.6% = **$3,960**	$8,000 x 20% = **$1,600**	$8,000 x 3.8% = **$304**

As you can see, donating long-term appreciated stock rather than cash potentially provides an "extra" tax benefit to the donor. Keep in mind this is only a hypothetical example. Actual tax benefits will vary depending on the details of your overall income tax situation, the type of property contributed, and the type of organization receiving your gift.

Non-Tax Reasons for Giving Stock

In addition to tax benefits, donors often have additional reasons for choosing to give stock. These might include a concentrated position in a particular stock; the ability to "lock-in" the benefit of past appreciation (for the charity); and preserving available cash for other needs.

Take Action

Talk to your Financial Advisor to learn more about charitable giving alternatives that may be a good fit for your personal financial situation. As always, work closely with your tax and legal advisors to determine how any particular strategy will affect your overall tax situation.

* Our discussion here is limited to gifts of appreciated publicly-traded stock, with a long-term holding period, to public charities. Additional restrictions apply to gifts of stock with a short-term holding period, stock held at a loss, and gifts of closely-held stock to a private foundation.

† In 2014, taxpayers with adjusted gross income above the $254,200 (single) and $305,050 (married filing jointly) threshold will lose a portion of their itemized deductions. The amount of income tax saved may be subject to these rules for higher income taxpayers and additional rules that limit charitable deductions as a percentage of adjusted gross income. Medicare surtaxes apply to certain higher income taxpayers as provided under the Health Care & Education Reconciliation Act of 2010.