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Why Gifting Appreciated Stock is Smart, Even in a Down Market

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Although major stock indexes have come under pressure this year, you may find that many of your equity holdings are worth significantly more now than when you bought them. After all, and despite recent volatility, US large-capitalization stocks have seen a historically sharp share-price rise since 2009.

This is, in other words, an excellent time to consider donating long-term appreciated stock to registered charities (which may include donor-advised funds). In so doing, you may be able to:

- Claim a tax deduction on the fair market value of the gift
- Eliminate a (potentially) steep capital-gains charge
- Sidestep a Medicare surtax of 3.8% attached to stock sales in some circumstances

Beyond these advantages, donating appreciated stock — even in a downturn — can be an impactful and cost-effective way to meet philanthropic goals while rebalancing your whole portfolio in the name of diversification and ongoing risk control. Additionally, donating appreciated stock can help investors trim taxable income, which can be an especially compelling consideration in years when your income is especially high.

Here's is how it works

Suppose you want to donate stock worth $25,000 for which you had originally paid $2,500. Selling that before making a donation triggers a tax on the appreciated portion of $22,500. Assuming a 15% capital gains rate, the sale will cost you $3,375, for a post-tax gain of $19,125. If you were then to make a post-sale donation of those proceeds, you would be able to claim that amount — $19,125 — as a charitable deduction.

But if you donated the $25,000 in appreciated stocks directly to a registered charity instead of selling the stock first:

- The charity gets the whole amount ($25,000) with no tax consequences
- You pay no capital gains tax
- You can claim the whole $25,000 as a charitable deduction (not just $19,125)

Why you should be thinking about charitable giving now

When the stock market strays into bear territory, as it has done this year, high-net-worth investors may be tempted to curtail their charitable giving as a means of preserving wealth. In this scenario, gifts of appreciated stock in particular may seem risky in a downturn.

That's an understandable reaction, but it may not serve the donor's strategic interests for two main reasons.

1. **Philanthropy is an investment in family and legacy as well as community**

   For some wealthy families, charitable giving is an expression of shared values. In this context, philanthropy can provide the basis for far-reaching and inclusive discussions around the family's legacy and long-term aspirations, in turn giving voice and agency to younger, less assertive, or geographically distant family members. This can be especially crucial where the family isn't tied to an operating business, or where relatively few members of the family are directly involved with one. Without a shared and central mission such as philanthropy, many families in this boat find there's little left to connect its members but money.

2. **Downturns don't last forever**

   Bear markets, often signified by drops from near-term highs of 20% or more, are "sustained periods of downward trending equity prices," according to Investopedia. This year, the S&P 500, a proxy for US large caps, slipped into bear country after the Federal Reserve, reacting to signs of sustained inflation, raised interest rates significantly and on multiple occasions.

   Besides marking the first Fed-rate increase since 2018, this year's three hikes to date represent the most aggressive action by the US central bank aimed at affecting the economy since 2001, when its object was to stimulate growth rather than slow it.

   No wonder investors are feeling spooked.

   But it's helpful to recall that post-WWII downturns are typically followed by sharp recoveries of longer duration. In the most pronounced downturn of the previous 80 years, the S&P 500 dropped 48% between August 2008 and March 2009 — a period of about six months — only to regain 61% in the next half year. Just before the Covid crash of March 2020, large caps were up nearly 400% from their 2009 low. Now, even as the market endures elevated volatility and from time-to-time flirts with bear market territory, the S&P 500 is still significantly higher than it was coming out of the last recession.

As it pertains to responsible investment portfolio stewardship, a great deal of the news around securities and macroeconomic trends is simply noise. Smart investors continue to invest, smart managers continue to rebalance, and the charitably-minded philanthropists continue to give, no matter what the headlines happen to be screaming.

Seek professional advice before gifting appreciated stock

As straightforward as this may seem, it's always prudent to secure expert help with matters touching on taxes and charities, especially when they may affect your financial and estate planning.

Your financial advisor can help you:

- Ascertain whether a given charity is qualified
- Choose the best stocks to donate in terms of portfolio optimization and maximum tax savings
- Stay up to date on regulatory changes that can impact the tax treatment of donations from year to year

And it's useful to know that charitable giving isn't a year-end activity, not with appreciated stocks in play. While it's fine to make charitable gifts of cash while the dust is settling, it makes more sense to donate appreciated stock more opportunistically at any time of the year in order to maximize both the size of the gift and the amount you can deduct from your tax bill.

If you want to speak with us about your charitable gifting strategy, please contact us here.

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