GiveTeam

Helping Clients Give More: For Clients with a Donor Advised Fund

How to think about giving to charity from cash or appreciated assets for clients with a Donor Advised Fund (DAF)

Let's say you bought Tesla stock for $1,000 and now, 1 year later, it's worth $10,000. Congrats! Let's also assume that you live in California and are in the top income tax bracket. Therefore, you climb into the 37% Federal income tax bracket and the 13.1% California state income tax bracket. For long-term capital gains taxes, you fall into the 20% Federal tax bracket (plus the 3.8% Medicare surtax) along with the 13.1% California state income tax.

Let's say you want to give $10K to charity. You have two options:

OPTION 1
Give $10K CASH to charity. You will be allowed to deduct $10,000 from your income, thereby saving you approximately $5K in taxes the year the gift is made.
Total savings: ~$5K

OPTION 2
Give $10K in Tesla STOCK to charity. You will receive the same ~$5K in income tax savings PLUS you will never have to pay capital gains taxes on the $9K gain the Tesla stock realized. That's another ~$3K in capital gains savings that you never have to pay to Uncle Sam.
Total savings: ~$8K

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Someday, you would likely sell that Tesla stock and have to pay taxes on the $9K in growth. So it's better to keep your cash and give away the appreciated stock without realizing the additional tax. If you are worried about missing out on the Tesla investment, give the $10K stock to your DAF, then buy another $10K in stock from your cash each time. In this way, you can chase your tax basis upward over time, avoid paying taxes on the growth each year, and retain your upside in Tesla as well.

In other words...

- **Giving from stock reduces 2 taxes:** ~$5K in income tax, and ~$3K capital gains tax (which can be huge depending on your tax bracket)
- **Giving from cash only reduces 1 tax:** ~$5K in income tax

What are the benefits of giving from appreciated assets rather than cash?

1. Tax Savings

You receive a tax savings on the stocks (you don't have to pay the capital gains)!

Uh-oh: What if you gave away $10K in cash and then realized you actually needed that $10K in cash that year? You would be short if you went for option 1 and might have to resort to selling stock to make up the shortfall. If you did sell your stock, you would trigger the tax on the gain and be short $3K in capital gains taxes. Oops! So that would be even worse–you needed $10K, but all you got by selling was $7K.

2. Mental Bucketing

This benefit is particularly powerful for people who are still working – high income earners with high expenses.

Let's say your financial advisor agrees that you should be able to afford to give away $10K/year, but since you have such high expenses, and because that $10K cash is

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coming from your “spending” bucket, you’ll really feel the effects of those dollars out the door.

Now, let’s say many years ago, you inherited some highly appreciated stocks from your grandmother which you never think about. The only reason you’re holding onto them is because you don’t want to pay taxes on the stock. So, if you give away $10K in stock from that bucket (and the corpus is continuing to grow anyway), you won’t think twice about it because you weren’t drawing down on it as money to spend anyway.

So, you were planning to donate $10K in cash, but if you gave $15K in appreciated stock this year instead, your tax savings would be about equal. Hmm, you now realize maybe you could give a bit more than you were giving before, increasing your giving capacity.

Now that you’ve seen you can do more, what if you actually gave $15K or $30K/year from those assets? You are now empowered to give more because of mental bucketing. You didn’t love the stock to begin with, you didn’t reduce your ability to spend regularly, and (this assumes) you have a financial advisor who knows your plan and can confirm that this level of giving should be sustainable in the short- and long-term.

Bottom Line...

Do your giving from stocks (see if you can 2x or 3x your giving level!), write it off, and don’t pay capital gains!

Again, as the advisor, you will look like the hero for framing giving to your client in this way, your client will be thrilled because they will be able to give more without feeling the short- or long-term effects on their financial plan, and ultimately, the under-resourced, community-based organizations will gain the most by getting a larger influx of charitable dollars so they can achieve their missions. It’s a win, win, win.

More, better, now.

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