IT'S BETTER TO GIVE: TIPS FOR MAKING THE MOST OF CHARITABLE GIFTING

The holiday season is fast approaching and now is the time for middle class millionaires to begin thinking about charitable giving for the year. Armed with a few simple strategies, you can give more regardless of the status of the financial markets. Of course, the main reason for your charitable giving should be a desire to make a positive difference in your community. But first, you must decide where to direct your charitable contributions.

Charitable Gifting Basics

Since the equity markets have rallied over the past few years, many individuals have unrealized capital gains on stocks and other securities. Some of these securities may be overweighted in your investment portfolios, so you should reduce their position in order to maintain the proper asset allocation. We would either sell those securities and you pay tax on the capital gains or you could gift the shares and receive a tax deduction on the full fair market value.

There are also tax-related gifting strategies for stocks with unrealized losses. Let's say you bought $5,000 worth of ABC Corporation stock, and the value went down to $2,000. The stock is sold, and the $2,000 in cash is donated to a charitable cause. The investor takes a $3,000 loss on his or her tax return, and at the same time receives a $2,000 tax deduction for the donation – a total tax advantage of $5,000.

Finding Reputable Charities

How do you know to which charity you would like to donate? My advice is to give to organizations you care about, preferably ones with which you are involved. If you would like to research a charitable organization, check out Charity Navigator (www.charitynavigator.org) or Guidestar (www.guidestar.org) to search by categories nationwide or to find a specific organization in your community. You can read reviews, comments and their financial statements (IRS Form 990) to decide if it's a worthy charity.

Making It Easy to Gift Securities

A Donor-Advised Fund is an account you set up to receive stock or mutual fund donations and then convert them into cash. It allows you receive an immediate tax deduction on a lump sum stock contribution and then take your time deciding how

Clark Kendall, founder of Kendall Capital Management in Rockville, Maryland, has over 30 years of experience in investment management and wealth management. He provides independent financial direction to middle class millionaires in greater Washington, D.C. www.kendallcapital.com

to spend that money by issuing checks to your favorite charities, similar to an online bill paying account. Any money not donated stays in the account which is invested in an index portfolio and can grow tax-free. We have clients who enjoy making the donation decisions together from year to year and the fund can live on from generation to generation.

Each year clients of Kendall Capital simply tell us how much they would like us to donate to charities, we select the securities to be donated, and then they direct checks to desired charities. They also have the ability to request monthly checks to their desired charity. If clients are not interested in online access, we are happy to direct gifts at the client's request. Donations (or grants) must be at least $50, and accounts can be opened with a minimum $5,000 stock or mutual fund contribution. As an added bonus, instead of keeping track of dozens of receipts, you get a list of all of your donations and a report of the total tax-deductible amount for the year.

The advantage is twofold: donations to a donor-advised fund can be timed for when the security's value is high, but gifts can be given when the charities need it most. You may have a particular stock which has doubled or tripled in value. We would identify that as "gifting stock" and recommend giving that directly to an organization or an individual. In this case, consider two things. First, how much will the recipient have to pay to liquidate the asset? And second, is the recipient in a lower tax bracket than you?

Many churches or small nonprofits have a standard brokerage account that will charge hundreds of dollars to sell a stock. They may be better off receiving a cash donation from a donor-advised fund. If you're planning to give money to a family member, say a young adult, you could sell the appreciated stock (which carries your cost basis), but pay 0% capital gains tax if the family member is in the 10-15% marginal tax brackets. However, if your heirs are in similar tax brackets as you, they're better off receiving cash now and the appreciated stocks after your death, when they can receive the step-up in cost basis.

My closing piece of advice is this: market volatility is no reason to shy away from giving to charities or your children. Whether a particular asset has gained or lost value, by giving smartly you will save considerable taxes while enjoying the feeling of helping others and maximizing benefits all around.