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Our Economy and Your Charitable Giving

By Clark Kendall

It's that time of year when thoughts turn to New Year's resolutions. For middle class millionaires, one of those resolutions should be to get smarter about charitable giving and gifting to children. Armed with a few simple tips and strategies, you can give more whether the financial markets are up or down.

According to the National Center for Charitable Statistics, Americans with income between $100,000 and $200,000 contribute, on average, 2.6 percent of their adjusted gross income to nonprofit organizations. Those with income above $200,000 contribute an average of 3.1 percent.

If you are charitably inclined, the volatility of our current equity markets has created opportunities to increase the amount of giving. But first you must decide where to direct your charitable contributions.

Doing Due Diligence on Charities

My advice is to give financially to organizations you care about, preferably ones with which you are involved. If you are already giving your time, talent and energy, then it makes good sense to give your money as well.

One of my personal rules when it comes to charitable giving is to keep my gifting dollars local. Readers of this magazine would be well advised to focus on Montgomery County-based nonprofits.

What if you're not already involved or familiar with a charitable organization? How can you do your due diligence to identify worthy nonprofits? Guidestar (www.guidestar.org) offers free access to the financial statements of every IRS-registered nonprofit organization. This financial statement (IRS Form 990) requires the organization to

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describe its mission and other significant activities. The organization must also disclose financial details on its revenues, expenses, assets and liabilities.

Thanks to Guidestar, it is much quicker and easier to do your homework on nonprofits. You may have been thinking about making a contribution to a local charity, but then discover on its Form 990 that the executive director is paid an annual salary of $300,000. Does that organization really need your help? Armed with current financial data on the charity, you can make an informed decision.

Making the Most of Market Volatility

In the current equity markets, there is a large divergence between market sectors that have done well and sectors that have done poorly. Whether the securities you own – stocks, bonds, mutual funds and/or exchange-traded funds (ETFs) – have outpaced the market or underperformed, there are gifting opportunities.

Let's say the asset has appreciated in value and you have an unrealized capital gain for tax purposes. In this case, you should either gift the appreciated securities directly to a charity or to a donor-advised charitable fund. In either case, you receive a charitable tax deduction for the full market value of the securities.

Gifting appreciated securities to a donor-advised fund can be a particularly smart strategy because donations can be timed for when the security's value is high and the charities need the money the most. If you bought $5,000 worth of stock in XYZ Corporation and the value has gone up to $20,000, you could make a $20,000 donation to the donor-advised fund and use this windfall to lock in charitable giving for the next four years at the rate of $5,000 per year. You would be able to specify how and when the money is parceled out to the charity or charities of your choice.

If the asset has gone down in value and you have an unrealized loss, you should sell the securities and realize the loss to either offset other capital gains or earned income up to $3,000 per year. Then you can use the cash from the sale of the securities as a gift to your children or as a charitable donation.

Here's an example. Let's take that $5,000 worth of XYZ Corporation stock and paint a different scenario: the value has dropped to $2,000. In this case, you would sell the stock and donate the $2,000 in cash to a charity or give it to your children. You would take a $3,000 loss on your tax return, and at the same time receive a $2,000 tax deduction – a total tax advantage of $5,000.

Gifting Securities

If you have reached the point in your financial life where you are charitably inclined, your financial advisor may have an attractive option known as a "gifting" security. This is a stock or other equity asset that is designated for charitable gifting because its value is appreciating rapidly.

For example, two years ago we started buying stock for clients in a company that provides payment backbone systems for credit card companies. At the time, the stock was worth around $40 a share. Two years later, the stock has more than tripled in value. We encourage clients who have held this stock for at least a year to use it for their charitable donations, because the increased value enables them to make a bigger impact on the community.

Tips on Gifting to Individuals

Sometimes it makes sense to gift securities to another individual. For example, if your children are in a lower tax bracket where the long-term capital gains tax rate is 0%, it would make sense to gift appreciated stocks to them and have them sell the stock.

If you hold gifting of appreciated securities until after your death, your heirs may be able to avoid paying capital gains tax – assuming they sell the stock soon after receiving it. If you want to gift now to heirs in a similar tax bracket as yourself, hold the appreciated securities and give them cash instead.

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 money while maximizing the benefits. It's like grocery shopping with coupons or clothes shopping the day after Christmas – dollars saved are dollars earned for your community or family. MM

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.