



## It's better to give: Smart ways to make the most of charitable gifting

Thought Leadership on Wealth Manager Strategies for the CEO presented by [Kendall Capital Management](#).

The holiday season is fast approaching and it's time to start thinking about end-of-year tax strategies. For C-level executives, one of these strategies should be gifting to charitable organizations that not only reduce tax liability, but also bolster credibility both inside and outside the boardroom.

To find a local success story about the credibility-building aspect of charitable giving by a CEO, look no further than David Rubenstein. Rubenstein, a Baltimore native, is best known as the billionaire co-founder and co-CEO of The Carlyle Group, the global private equity investment company based in Washington, DC. But, he is also known for his philanthropy.

According to an October 2014 article in *The Atlantic*, "He, like Bill Gates and Warren Buffett, has signed the [Giving Pledge](#), and aims to give away almost all of his \$3.1 billion fortune before he dies." Not only did Rubenstein donate millions of dollars to help fund repairs to the Washington Monument following the August 2012 earthquake, but, according to *The Atlantic*, "He also donated \$4.5 million to the National Zoo's panda program after realizing that there were only around 1,500 giant pandas left in the world compared to 7 billion humans."

Of course, the primary motivation for charitable giving should be a genuine desire to make a positive difference in the community. But, if you are the owner or a top executive of a business in the Greater Washington-Baltimore area, a favorable perception in the community can lend support to marketing and brand-building efforts.



### **Doing due diligence on charities**

My advice is to give financially to organizations you care about, preferably to 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. In addition, one of my personal rules when it comes to charitable giving is to keep my gifting dollars local.

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](http://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 describe its mission and other significant activities. The organization must also disclose financial details on its revenues, expenses, assets and liabilities. Armed with current financial data on the charity, you can make an informed decision.

### **Nuts and bolts of charitable gifting**

Since the equity markets have rallied over the past five years, many individuals have unrealized capital gains on stocks and other securities. Some of these securities may be overweighting and dominating investment portfolios, so it's time to reduce the ownership position in these securities.

For example, let's say you bought shares of Facebook stock a few years ago at a value that represented 5% of your portfolio. Today, that stock, which is trading at a higher valuation, represents 20% of the portfolio. From an investment strategy standpoint, there is a need to reduce holdings in Facebook to maintain portfolio balance. This creates the opportunity to gift Facebook shares to a charity, and receive a tax deduction on the full fair market value.

There are also tax-related gifting strategies for stocks that have not participated in the rally. Stocks that have gone down in value can be sold at a loss, and the cash can be used as a gift to a charity. Meanwhile, the loss can offset other gains or ordinary income for tax purposes. Once gains are offset, one can deduct up to an additional \$3,000 per year.

Here's an example. Let's say an investor bought \$5,000 worth of stock in ABC Corporation, 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.

### **Stretching gifting dollars**

When it comes to maximizing the impact of charitable contributions, for yourself and for the community, a donor-advised charitable fund has several advantages. According to the website for Schwab Charitable ([www.schwabcharitable.org/public/charitable/home](http://www.schwabcharitable.org/public/charitable/home)), "A donor-advised fund ... helps you give to charities while potentially realizing the greatest tax benefits of charitable giving. ... You receive an immediate tax deduction and can recommend grants to your favorite charities at any time. Any growth in your investments is tax-free, and you can take your time choosing the charities you want to support."

As a financial planning client, you can specify the value of stocks you want the investment advisor to donate to the donor-advised fund each year. The advisor will select securities to be donated, and you can log on to the fund's website and direct checks to be sent directly to your desired charities. I use this approach for my own charitable giving and have been pleased with the results.

The advantage is twofold: Donations to a donor-advised fund can be timed for when the security's value is high, and on the opposite side, gifts can be given when the charities need the funds most. Donations from a donor-advised fund can be distributed for as little as \$50, and it only takes a \$5,000 donation to the donor-advised fund to open an account.

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What are the key takeaways for C-level executives? First, market volatility is no reason to shy away from giving to charities. Whether the securities you own have outpaced the market or underperformed, there are opportunities for charitable gifting that will reduce your tax liability and help your community. Second, channel your financial support to local organizations you are already supporting with time, talent and energy. Third, realize that giving publicly with a purpose can increase your profile in the community as well as your ability to get things done inside and outside the boardroom.

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