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Three Tax-Savvy Ways to Donate Appreciated Stock

Shares Can Make a Smart Gift to Family or Charities

By Carolyn T. Geer

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Flush from this year's big stock rally? It's a good time to be generous. Here are three tax-efficient ways to spread the wealth:

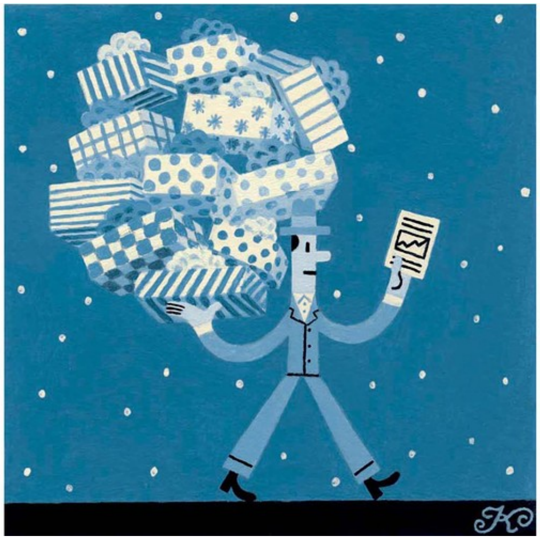
Give appreciated stock to individuals: You can give up to $14,000 each to any number of recipients this year without incurring federal gift taxes. That's up from $13,000 in 2012, and it's in addition to payments you make directly to medical providers or schools for qualified expenses on behalf of family members or others.

If you are married, you and your spouse each can give $14,000 to as many people as you like. (For those keeping track, these "annual" gifts don't count against your lifetime gift and estate-tax exclusion, currently $5.25 million.)

Bulging portfolios and higher capital-gains tax rates for many make this a good year to give appreciated stock. The value of the gift is the stock's market value on the day it's given. The recipient assumes your original cost basis in the stock and the accompanying capital-gains tax liability, but the gains could escape taxation entirely if the recipient is in the 10% or 15% income-tax bracket.

The top tax rate on qualified dividends and long-term capital gains rose to 20% this year from the Bush era's 15%. Add the new 3.8% surtax on net investment income, and high earners face a 60% increase in their capital-gains tax. For those in the 10% and 15% income-tax brackets, the long-term capital-gains rate remains at 0%.

As long as you and your giftee own the stock for a combined period of more than a year, the gains typically will be considered long-term. (Short-term gains are taxed at higher, ordinary-income tax rates.) Note: If the giftee is under 24, some of the gain could be taxed at his or her parent's rate under the "Kiddie Tax," says Mark Luscombe, principal federal tax analyst for Wolters Kluwer.



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Donate appreciated stock to charity: You also can give appreciated stock to charity. If you've held it for more than one year you may take a charitable tax deduction for the market value of the stock, and neither you nor the charity has to pay capital-gains taxes when the stock is sold. The combination can result in a bigger deduction (and more tax savings) for you and a bigger gift for the charity than if you sell the stock, pay the taxes, and donate the net proceeds.

In general, the amount of your deduction is limited to 30% of your adjusted gross income, but you can carry forward amounts above that for up to five years. New this year: an overall limit on itemized deductions. Congress reinstated the "Pease" limitation, which reduces your total itemized deductions by 3% of the amount that your adjusted gross income exceeds $250,000 (for single filers) or $300,000 (for joint filers).

So a couple earning $400,000, or $100,000 above the threshold, would take a $3,000 haircut on their total deductions. If their noncharitable deductions totaled less than $3,000, Pease would cut into any charitable deductions, according to an analysis by Vanguard Group. But if this couple had $50,000 in state and local taxes to deduct, Pease would reduce that to $47,000, and charitable donations would be unaffected.

Vanguard and other big financial companies accept donations of publicly traded stock in their "donor-advised funds," vehicles that let you contribute and book a tax deduction today but distribute the money over time to the charities of your choice. At Fidelity Charitable, long-term appreciated stock made up 54% of contributions through the end of October, up from 48% through September and matching the percentage of stock contributions for all of 2012, reports Amy Danforth, senior vice president of Fidelity Charitable.

Donate distributions from retirement accounts:

If you are at least 70½ by year's end you can have all or part of the distribution from an individual retirement account made directly to charity (up to $100,000 per taxpayer per year).

You won't get a charitable deduction, but you won't owe income tax on the IRA distribution either. Note: Contributions to donor-advised funds don't qualify.

The sun is again poised to set on this "qualified charitable distributions" rule. Congress temporarily extended it for 2013, as in past years. Barring fundamental tax reform in 2014, this and other regularly expiring provisions will probably be extended, says Mr. Luscombe, but perhaps not until late in the year.

— *investingbasics.wsj@gmail.com*