

**WEALTH PRESERVATION AND TAX PLANNING ALERT**

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October 2011

**Charitable Gifts - Appreciated Stock**

**N**ow that we have entered the last quarter of 2011, it would be an appropriate time to start reviewing your tax situation for the year and plan accordingly. One of the basic tax planning techniques used by many individuals to help reduce their tax liability for the year is to make charitable contributions prior to the end of the tax year.

Charitable contributions are deductible only if you itemize deductions on Form 1040 Schedule A for the year involved. To be deductible, the contributions must be made to qualifying charitable organizations that have received such a designation by the Internal Revenue Service. If you are in doubt as to whether an organization is a qualifying charitable organization, you should contact the specific charitable organization and ask for a copy of its Determination Letter, which classifies it as a qualified charitable organization, or check IRS Publication 78 to see if the charity is listed as a qualified charitable organization.

Charitable contributions can be made in the form of cash, credit card charges, tangible personal property and intangible personal property such as stocks. Any contributions that are actually made during the calendar year are deductible for that year. If the contribution is in the amount of \$250 or more you will need more than a bank record. You should receive from the charitable organization a written acknowledgement that includes the amount of cash or a description of the items together with a good faith estimate of the value. If the items are valued at \$500 or more you will need to complete Form 8283, Non-Cash Charitable Contributions, and attach the form to your return. If the deduction for the contribution of non-cash property is worth more than \$5,000, you generally must obtain an appraisal, unless the contribution is a marketable security traded on an established stock exchange, and complete Section B of Form 8283 filed with your return.

An extremely tax-effective means of accomplishing charitable contributions and taking maximum advantage of the tax laws currently in effect is – if you're one of the lucky ones – satisfying your charitable contributions by transferring appreciated stock in satisfaction of your charitable contribution to the qualifying charity.

To take maximum advantage of this tax strategy the stock must qualify for long-term capital gains treatment, which means that you must have held the stock for a period of longer than one year. By donating stock that has appreciated in value, you will get a deduction, subject to certain adjusted gross income limitations, in an amount equal to the fair market value of the stock. By using this method, you will not have to pay a capital gains tax equal to 15 percent of the gain on the stock, as you would have if you sold the stock in the open market.

For example, assume you purchased a stock longer than one year ago for \$1,000, and at the current time the fair market value of the stock is \$21,000. If you sold the stock a gain would be recognized in the amount of \$20,000 (sales price \$21,000 – cost \$1,000 = gain of \$20,000). The tax that would have to be paid on the gain of \$20,000 would equal, under normal circumstances, \$3,000, thus leaving you \$18,000 to make as a charitable contribution. If the stock itself was transferred to the charity you would be entitled to a \$21,000 charitable deduction and not have to pay the capital gains tax of \$3,000.

Please note that this method should only be used with long-term stocks, stocks held longer than one year, which have gains. If you have a stock that you would recognize a loss on the sale, the most effective means of using the value of that stock as

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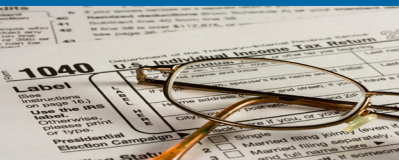
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a charitable contribution would be to first sell the stock, recognize the loss for tax purposes, and then donate the actual cash proceeds received.

Another very important factor to take into account when using this technique is that in order to recognize the charitable contribution on the date transferred, the certificate should be properly endorsed to the charitable donee or donee's agent. If the donor delivers the certificate to his or her bank or broker as the donee's agent or to the issuing corporation to transfer to the donee, the gift is completed on the date the stock is transferred on the issuing corporation's books.

If this method is used to accomplish a charitable contribution, the amount of the contribution made for the current year to public charities would be limited to 30% of your adjusted gross income.

It is a good idea to meet with your tax advisor before completing a charitable contribution to determine the effect of the contribution on your estimated taxable income. For those who have charitable contributions over and above the limitations provided by the Internal Revenue Code, the amount of unused contributions can be carried forward for the next five years and used against the income generated for those years. ■

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