3 tips *for* giving at year-end:

Not all assets are created equal

A charitable donation is an excellent way to tax-effectively reallocate a portfolio, reduce capital gains, avoid estate taxes, or minimize taxable income with a charitable contribution deduction—but you must give the right asset.

Consider your entire financial picture before simply writing a check to charity. Do you have appreciated securities or special assets?[1] Is your portfolio heavily weighted in one asset class, and you are looking for a tax-effective way to rebalance? How may a non-cash gift allow you to support your overall financial strategy and charity? Take an example of gifting cash versus an appreciated security.

Suppose you are a taxpayer with $500,000 of adjusted gross income who wishes to contribute to charity. You own appreciated securities with a market value of $100,000 that you purchased for $10,000 more than one year ago. You have two donation options. Which one should you choose?

Sell securities and donate cash	Donate securities in-kind
Sell securities and donate entire proceeds of sale to charity.	Donate securities directly to charity.
Realize $90,000 gain and pay $18,000 in capital gains tax with money from another source.[2]	**Pay no capital gains tax.**
Deduct $100,000 from taxable income and save $36,680 in income tax.[3]	
Charity receives $100,000.	
After taxes, the gift costs you $81,320.	After taxes, the gift costs you $63,320—a savings of $18,000.

[1] Examples of special assets include hedge fund or private equity investments, insurance policies, and non-publicly traded stocks.

[2] Capital gains tax is calculated by multiplying the $90,000 gain by the 20% long-term capital gain rate.

[3] The overall limitation on itemized deductions (the "Pease limitation") reduces the deduction by $7,374. The 39.6% tax rate, therefore, applies to a deduction of $92,626.

Vanguard Charitable