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In a Down Market, Can Your Portfolio Still Support Your Charitable Giving?

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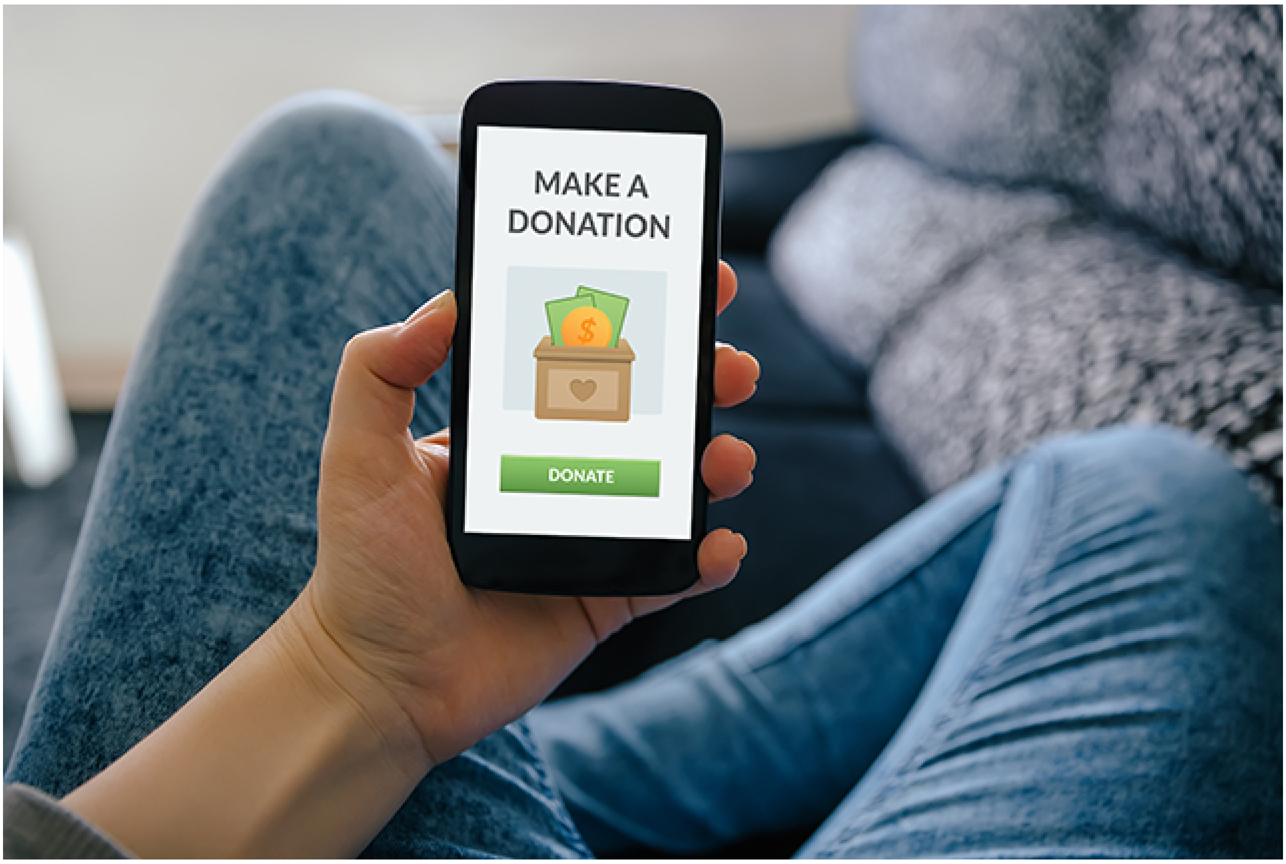

During the COVID-19 pandemic, many people want to stretch the impact of their dollars for their families while continuing to help others. Even during a downturn, donating stock may be one way to achieve that goal and support the nonprofits that are tirelessly serving our communities during this time of urgent need.??

The recent 11-year bull market provided an incredible opportunity for many investors to grow their wealth and better position themselves financially for the future. While the latest decline in stock market prices has impacted portfolio values, many investors may still own securities that are worth more today than what they paid, especially if held for a decade or longer.

The CARES Act signed into law on March 27, 2020 enhanced the tax benefits of charitable giving in 2020. The adjusted gross income cap on cash giving was increased from 60% to 100%, and taxpayers who elect the standard deduction can take a $300 above the line deduction for cash donations. For generous givers, the law change could effectively eliminate their tax liability in 2020.

Therefore, even in a declining market environment there could still be compelling reasons to consider giving from your investment portfolio as part of an overall charitable strategy.

Here are three important considerations to help determine whether your portfolio could provide good charitable giving opportunities in this market:

You intend to sell the stock. You may have a particular stock or stock fund that you've held for many years, but it's now out of favor for any number of reasons. Or, the market downturn has caused you to reconsider the level of risk in your portfolio. Perhaps you would like to diversify out of a large position in a stock or a stock fund. If you have a capital gain, this could be a great way to fund your giving goals now and better align your portfolio.

By donating an appreciated stock directly to a 501(1)(3) charitable organization, including a donor-advised fund, you not only get a tax break based on the fair market value if you itemize deductions, but you also avoid paying taxes on the capital gains. The charity or donor-advised fund also avoids paying capital gains tax and can sell the stock to further its mission with the cash proceeds.

However, if you intend to donate a stock that is trading at a loss, you are better off selling at a loss, then donating the cash proceeds since the tax deduction would be limited to the lower of your cost basis or the fair market value.

Use the extra tax deduction to offset income this year. Even after itemizing deductions such as mortgage interest, property taxes, state income taxes, and medical expenses, from a tax perspective many people could further benefit from a charitable contribution.

This strategy could be especially useful to those looking to maximize their ability to give charitably during their peak earning years. Thinking ahead, they could even front-load multiple years of their giving into a donor-advised fund which allows the contribution to be deducted against higher income in the current year and granted out over time in future years. You can donate up to 30% of your adjusted gross income in appreciated stock held for more than a year to public charities and claim the deduction on this year's tax return.

One great advantage of donating stock is that you can convert an asset that would be taxed at a capital gain rate into an ordinary income tax deduction. For example, the gain on long-term held stock that would otherwise be taxed at the 15% - 20% federal capital gains rate could instead be used to offset ordinary income for an individual in the 35% marginal tax bracket.

Therefore, even in a down market, avoiding capital gain taxes and using a donated capital asset to offset earned income could be a great way to stretch your dollars and help a good cause.

Donating stock can be a good complement to cash giving. Many donors like the idea of quickly donating cash to the organizations and causes they care about. During a down market they may desire to keep owning their stocks until prices recover.

As a result of the CARES Act limit increase to cash giving, generous donors have a great tax incentive to increase their cash giving to nonprofit organizations.

For those charitably-minded investors who like the idea of primarily giving cash, consider donating some of your portfolio gains to supplement your cash giving. The cash that you would have otherwise given could then be redirected to purchase the same amount of stock, effectively increasing your cost basis in those investments.

This strategy is effectively a form of dollar cost averaging and helps reduce the tax bill down the road once the investment is sold. I have seen many investors get into a regular rhythm of using this strategy over time which can be a great way to continue putting money to work in the portfolio, fund charitable causes, and save on taxes.

Stocks can be a great source of building wealth over time, despite the significant level of volatility we have experienced recently. They can also provide an effective foundation for building a charitable giving strategy throughout market cycles, particularly during these times when the needs are highest and the impact is the greatest.

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