



Investment Insights

Kevin Kennedy

The Gift of Stock

With tough economic times gripping the state and country, charitable organizations have been finding it increasingly difficult to raise the funds needed to provide important services to our communities. Talk to the head of one of your local charities, and they will confirm for you that money is tight, and the job of raising money has become more burdensome in recent years. Typically, donors make gifts in the form of cash contributions, but there are other ways to fund your favorite charity. In this column, I'll outline for you two ways to contribute to your favorite non-profit organization that not only benefits them, but also can benefit you as well. If you decide to pursue either of these ideas, talk first to your tax professional and investment advisor to make sure everything is done correctly and maximizes the benefit to you.

Gifting stock

Investors who have portfolios of individual stocks may find that their portfolios have become littered with small holdings in companies. Over the past 10 years, many companies have "spun-off" divisions of the parent company, creating a new stock and, for shareholders, a miniscule holding in the new company. A good example is AT&T, which is one of the most widely held stocks in America. If you've owned AT&T for many years, your portfolio may now also contain shares of AT&T Wireless, Comcast, and many Baby Bells (SBC, Verizon, etc.). This is a result of the seemingly endless number of spin-offs and mergers that AT&T has undergone since the court-mandated breakup of the company in 1984. Often, the number of shares in the new companies is less than 100, deeming it an "odd-lot". As a result, holders of these odd lots are often inundated with offers from the company to buy back shares, or allow you to round up to 100 shares. However, if you decide to sell the holding to clean up your portfolio, you face the task of calculating a "cost basis", the price you paid to acquire the stock, so you can report the transaction on your tax return. You may also find that the cost of selling the stock is a substantial portion of the total value of the shares, meaning you end up with very little or no money for your efforts.

A solution I've recommended to clients is to gift the shares to your favorite non-profit organization. Frequently, non-profits have accounts at brokerage firms designed to accommodate gifts of securities. Contact your favorite charity and inquire about this possibility. The shares can often be electronically transferred to the charity from your brokerage account via a system known as DTC transfer: with your authorization, and the

account information for the charitable organization, this process is quick, easy, and usually free.

The benefit of gifting these small holdings to a charity is two-fold. First, you don't have to go through the arduous task of establishing a cost basis as you would if you sold the shares yourself. Second, you get a tax deduction equal to the fair market value of the shares at the time of the gift. In essence, you turn the annoying \$300 holding in XYZ Company into a \$300 write-off, and the charity gets a nice contribution.

Highly appreciated stock

For those of you fortunate enough to have large holdings in stocks that you bought at very low prices, there is another effective way to help your favorite charities and also help yourself. You can form your own charitable organization, or you can gift shares to an endowment program.

Forming your own charitable organization can be difficult and expensive, so this option is usually only applicable for persons who have significant holdings (valued in the millions of dollars) in a particular stock. If this applies to you, talk to an attorney and tax professional to get a good idea of what's involved in this option.

Gifting large amounts of highly appreciated stock to a pre-formed endowment is much easier. A couple of the most widely used endowment programs are offered by Fidelity and Vanguard. In these programs, an individual can transfer ownership of highly appreciated stock to the endowment, yet still retain control over what charities receive gifts from their donation. There are some terrific tax benefits in making this type of gift, so talk to your tax professional about how this option might benefit you.

Kevin Kennedy is president of Kevin Kennedy, LLC, a registered investment advisor firm in Alameda. Reach him at 510-748-1898 or Kevin@KevinKennedyLLC.com. Stocks, bonds, and mutual funds involve risk, including loss of principal. Past performance is no guarantee of future results.