



Donating Restricted Stock to Charity

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For philanthropically minded executives, investment assets that have appreciated most in value can be among the most tax-advantaged items to contribute to charity. Often, their most appreciated investments are concentrated holdings of restricted stock in their companies. These holdings may have a low cost basis and significant current market value that will result in large capital gains taxes when sold.

By donating a portion of their appreciated restricted stock held for more than one year to a public charity (including a donor-advised fund), executives are able to potentially eliminate capital gains tax liability on the sale of the assets, enjoy a current year tax deduction, for those who itemize, while allowing the charities they support to receive the most money possible. Contributions of similar assets to a private foundation would generally be deductible, for those who itemize, at the lower of cost basis or market value.



Considerations include:

- If the executive is subject to Rule 144 public sale restrictions, and/or is considered a “control person” in the company, the company’s general counsel must give permission to transfer the shares. The public charity will work with the company’s general counsel to satisfy the requirements of Rule 144 to remove the restrictive legend. The contribution of restricted stock may require certain paperwork and filings.
- Donating restricted stock to charity or a donor-advised fund account are generally deductible, for those who itemize, at fair market value on the date of contribution.* By contrast, contributions of restricted stock to a private foundation are generally deductible, for those who itemize, at the lower of cost basis or market value. A qualified appraisal is typically required to substantiate fair market value.

Case Study—Contribution of Restricted Stock

A senior executive of a media firm has a large concentrated holding of restricted stock with low cost basis. The restricted stock is subject to strict lock-up periods and trading windows. As it is his most appreciated asset, he would like to contribute a portion of the stock to charity in order to support various philanthropic causes while minimizing taxes associated with any eventual sale or liquidation.

The executive decides to establish a donor-advised fund and gains approval from his firm to contribute a portion of his restricted shares. The charity works with the company's general counsel to satisfy the requirements of Rule 144 to remove the restrictive legend prior to contribution. The contribution of restricted stock may require certain paperwork and filings. The executive can then recommend grants to charities of his choice over time. He claims a fair-market-value deduction (as determined by a qualified appraisal).

	Sell stock and donate proceeds to charity	Donate stock directly to charity
Asset Value	\$1,000,000	\$1,000,000
Capital Gains (100% Long-Term)	\$950,000	\$950,000
Taxes Paid**	\$226,100	\$ -
Gift to Charity	\$773,900	\$1,000,000
Charitable Deduction for those who itemize†	\$773,900	\$1,000,000
Donor Tax Savings‡	\$286,343	\$370,000

Learn More

For more information about the advantages of contributing restricted stock to charity and for a detailed consultation about your specific situation, please call us at [800-746-6216](tel:800-746-6216) or visit us at www.schwabcharitable.org.

Gifts of restricted stock can involve complicated tax analysis and advanced planning. The above article is meant only to be a general overview of some of the considerations and is not intended to provide tax or legal guidance. If you would like to consider a donation, please consult with your tax advisor.

* May be subject to discount based on the specific restrictions if the restrictions are not cleared prior to contribution. In the above hypothetical case study, the restriction was cleared prior to contribution.

**Hypothetical case study, for illustrative purposes only. Assumes cost basis of \$50,000, that the investment has been held for more than a year and that all realized gains are subject to the 20% federal long-term capital gains tax rate plus the 3.8% Medicare net investment income surtax. Does not take into account any state or local taxes.

†Gifts to charity of restricted stock are typically deductible, for those who itemize, at fair market value. For gifts of more than \$10,000, the donor must obtain a qualified appraisal if the restriction is not cleared prior to contribution. Such valuation may be discounted to reflect the lack of immediate marketability and other restrictions. Such discounts vary widely, depending on the nature of the specific restrictions. No discount was applied in this example because the restriction on the gift was cleared prior to contribution. The example assumes full deductibility (gifts to public charities [including donor-advised funds] of property held longer than one year are generally limited to 30% of AGI with a 5-year carryover of unused amount).

‡Assumes donor is subject to the maximum 37% federal tax and does not account for state or local taxes. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, and may be subject to reduction for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity, and the donor's AGI.

Schwab Charitable is the name used for the combined programs and services of Schwab Charitable Fund™, an independent nonprofit organization. The Schwab Charitable Fund has entered into service agreements with certain affiliates of The Charles Schwab Corporation.