FIDELITY Charitable®
Make more of a difference

Case Study: Net unrealized appreciation strategy

Increase your overall savings and charitable impact with NUA

Certain qualifying events may allow you to take advantage of the lower and more favorable capital gains rate when selling company shares. Plus, you'll have the opportunity to use highly appreciated company shares as a current year tax deductible gift.

What are the qualifying events for NUA transactions?

- Separation from employment—retiring
- Disability
- Attaining 59½ years

Ana is planning her retirement from an airline company where she has been an employee for 30 years. Her advisor informs Ana of a unique planning opportunity to increase tax savings by processing net unrealized appreciation (NUA), which is the difference between the price you initially paid for a stock and its current market value. NUA is a tax strategy that can be applied exclusively to an employer's company stock with qualifying events such as retirement.

After Ana's retirement, her advisor suggests Ana close her 401(k), moving the highly appreciated company stock to a brokerage account, which will generate ordinary income tax on the stock's cost basis. Any previous and future company stock growth will then be taxed as long-term capital gains (which is usually at a lower tax rate). The remainder of her 401(k) after the company stock has been transferred with NUA will be rolled over into an individual retirement account (IRA).

Additionally, Ana has always been charitably minded, usually contributing cash each year to food banks tackling hunger in her community. With the NUA strategy in mind, her advisor suggests she consider gifting long-term appreciated securities for the additional benefit of potentially minimizing the capital gains exposure.

The tax savings of NUA

- Ana's adjusted gross income: $350,000
- Tax bracket (single filer): 35%
- Her 401(k) is worth: $1,100,000
- Company stock value: $400,000 (with a basis of approximately $80,000)
- Share value: $65 per share

When cashing out company stock

Without an NUA transaction

$22.75 in tax per share

At the 35% tax bracket, Ana will pay $22.75 in tax per share with her stocks' fair market value worth $65 per share.

With an NUA transaction

$11.55 in tax per share

With the fair market value of $65 per share, Ana's basis in the stock is $9. By subtracting the basis from the fair market value, the net unrealized appreciation is $56.

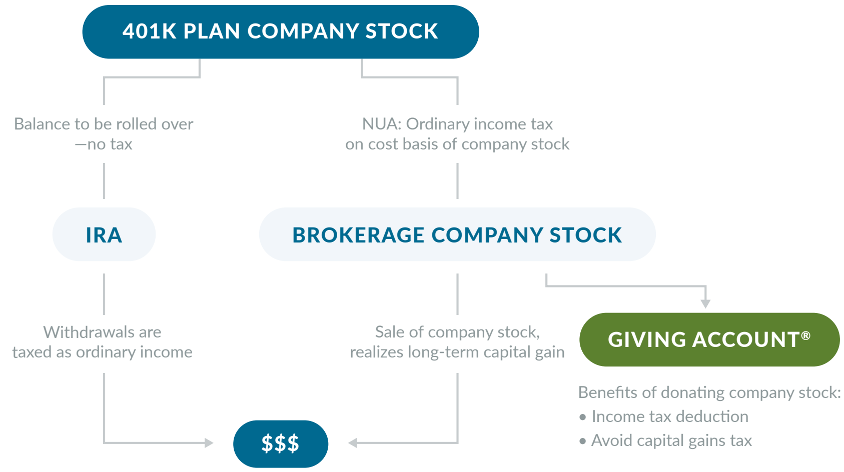
$3.15 tax on the basis
+ **15% tax**
(her long-term capital gains rate, on the $56 NUA, $8.40 tax per share)

$11.55 in tax per share

The impact of savings in taxes can be exponential.
With Ana owning more than 6,100 shares of company stock, she could save at least $68,320 in taxes when utilizing the NUA strategy.

The charitable giving benefit

Ana's CPA recommended giving the most efficient assets first, which are the lowest basis of her company stock. She decided to gift $80,000 of stock the same year as the NUA transaction. Ana and her financial advisor also decided to unwind more of the concentrated position in company stock by selling long-term held shares with the highest basis while harvesting available losses in her trust to drive further tax efficiency. **Gifting $80,000 of her company stock generates $28,000 in income tax savings[1] while also avoiding nearly $10,000 in long-term capital gains tax[2]—further unwinding the stock position and mitigating concentration risk in her portfolio.**



An NUA transaction allows Ana to not only pay the lower capital gains rate rather than higher ordinary income on the gains, but also donate the same very appreciated company shares to charity by opening a Giving Account®, a donor-advised fund.

After the NUA transaction is settled, Ana funds the Giving Account with a portion of the highly appreciated company shares. A donor-advised fund allows Ana to create a charitable "ready reserve" for her giving to hunger eradication in her community when she has more time in retirement to dedicate to giving back. By opening a Giving Account, Ana is able to recommend grants to her favorite charities, diversifying her charitable giving strategy *and* further maximize her tax deduction, especially important this year with her higher-than-normal income.

Qualified plan distributions of appreciated employer securities as part of a lump sum distribution may be attractive candidates for charitable gifts during a participant's lifetime. *IRC Section 402(e)(4)* states that the net unrealized appreciation on such securities (as of the date of distribution) won't be subject to tax, and upon a subsequent sale is entitled to long-term capital gain treatment, even if the stock is sold within one year of the distribution.

This means the participant could give the stock to charity and take a charitable contribution deduction for its full fair market value.

Benefits of combining an NUA strategy with charitable giving

- ☑ **Decreases concentration of company stock**
- ☑ **Increases the amount eligible to deduct**
- ☑ **Sets the stage for possible lower taxes in the future**
- ☑ **Provides opportunity to open a Giving Account and diversify charitable giving**

Visit our website to open a Giving Account

Give us a call to learn more: 800-262-6039

[1] *Estimated income tax savings reflects the federal income tax deduction less any long-term capital gains tax paid. It does not account for any state and local taxes, alternative minimum tax, or limitations to itemized deductions that may be applicable to taxpayers in higher federal income tax brackets.*

[2] *Please note that the long-term capital gains tax rates depicted do not take into consideration that long-term capital gain income may also be subject to an additional 3.8% Medicare tax for taxpayers with income at or above a certain threshold.*

This hypothetical case study is provided for illustrative purposes only. It does not represent an actual donor, but is meant to provide an example of how a donor-advised fund can help individuals give significantly more for the causes they care about.