Case Study: Donating Restricted Stock

Donating Restricted Stock Can Create a Larger Gift

Sonia has a concentrated and restricted position in company stock and is concerned about protection against tax exposure in her portfolio. She's philanthropically inclined but doesn't know how she wants to give, and doesn't have a long-term charitable plan. Clean water is a cause she wants to support but the charities she knows don't have the resources or experience to accept or efficiently liquidate restricted stock.

After speaking with her financial advisor, Sonia chooses to establish a Giving Account® at Fidelity Charitable®. She contributes long-term appreciated restricted stock, and Fidelity Charitable® works with the company's transfer agent, as well as its general counsel or compliance officer, to remove the restrictive legend. Fidelity Charitable then sells the stock and the Giving Account® is funded with the proceeds. Sonia is generally entitled to a tax deduction in an amount equal to the fair market value of the stock on the date of the contribution. Please note that donors should work with their tax advisors, as a qualified appraisal may be required to substantiate the fair market value of the gift.

TIP

By contributing long-term appreciated restricted stock directly to a donor-advised fund at a public charity, you are generally entitled to a deduction of up to 30% of adjusted gross income (AGI), potentially allowing for a greater tax benefit and larger charitable gift than contributions of stock to private foundations, which are generally deductible at only 20% of AGI.

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Make more of a difference

Sonia owns stock with a zero cost basis valued at:

$100,000[1]

Federal long-term capital gains rate: **23.8%**[2]

	Sell restricted stock and donate the after-tax proceeds	Donate restricted stock directly to Fidelity Charitable
Fair market value of restricted stock	**$100,000**	**$100,000**
Long-term capital gains tax paid (23.8%)	**$23,800**	**$0**
Amount available for granting	**$76,200**	**$100,000**
Charitable tax deduction	**$76,200**	**$100,000**

Tax deduction savings: $23,800

By contributing the stock to Fidelity Charitable rather than selling, then donating the after-tax proceeds, Sonia eliminates capital gains taxes on the sale of the stock. Plus, due to the flexibility of the donor-advised fund, the proceeds from the sale of restricted stock can be used to support multiple charities, all at once or over time. Now Sonia can recommend grants to fund clean water programs at qualified charities, recommend investments for the remainder of the funds in her Giving Account for potential tax-free growth, and research more charities to support over time.

[1] Amount of the proposed donation is the fair market value of the appreciated securities held more than one year.

[2] This assumes all realized gains are subject to the maximum federal long-term capital gain tax rate of 20% and the Medicare surtax of 3.8%. This does not take into account state or local taxes, if any.

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.

Considerations

- As a "control person" in the company, Sonia is subject to Rule 144 public sale restrictions.
- She may be exempt from holding period requirements under Rule 701.
- She and recipient charity must gain approval from the company's general counsel to sell or transfer the shares at acceptable times.
- Transferring ownership of the restricted stock directly generally involves required paperwork and filings.

Potential benefits of giving restricted stock directly to Fidelity Charitable:

- Potentially provide more money to charities
- Minimize capital gains tax exposure
- Become eligible to take a tax deduction