Charitable Giving Strategies: Doing Good While Repositioning Your Portfolio for Future Growth

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Charitable giving presents the opportunity for investors to support causes or organizations important to them. For some investors, donating shares of publicly traded stock could be an appealing option for contributions.

It's a common misconception that charitable gifting happens toward the end of the year. However, Commerce Trust believes charitable giving strategies can be a year-long endeavor based on several factors, including the investor's situation and the funding needs of the charitable organizations designated to receive a gift.

There are special requirements associated with gifting appreciated shares of stock. The shares of the gifted stock must be held for at least one year prior to the donation. If the stock has appreciated in value since its purchase, directly donating the stock to a charity of choice may be a preferable option. However, if the stock has lost value, it may be more advantageous to sell a portion or the entire position in the stock and donate the proceeds, which would allow the donor to take a tax loss.

Investors considering making a charitable gift of appreciated stock should be aware of what's happening in the market. In a year of noted market volatility like 2022 — the S&P 500 Index declined 18% for the year* — gifting appreciated stock whose values could be depressed due to market performance may present concerns for some donors.

Although most charitable gifts come from the heart, doing so while also repositioning an investment portfolio for future opportunities and reducing possible tax liability can create a win-win situation for investors.

Here are four strategies investors looking to make charitable gifts may want to consider. To help illustrate possible scenarios behind each strategy, let's introduce our fictional client, Robert.

Client	Robert, **71-year-old retiree,** former corporate executive
Investment Profile	**$5 million** taxable portfolio; **$1 million** invested in an IRA; generates **$300,000** annual income; **$100,000** in cash typically earmarked for charitable gifting; has a **donor advisor fund (DAF),** which he uses as a charitable investment account to support causes important to him and his family.
Tax Status	**Itemizes** every year, having significant deductions before making any charitable gifts

1. Giving appreciated stock and take the basis increase. Let's say Robert owns stock in a multi-national energy company, which saw strong gains in 2022. He could direct $100,000 worth of those energy stocks to his DAF, shift the 40%+ appreciation he enjoyed in 2022 to charity and take a full market value deduction. Robert still loves the upside opportunity in energy stocks. He could take the $100,000 in cash that was originally earmarked for charity and invest it in his favorite energy company, replacing the shares that he gifted. Robert takes a charitable deduction for the full value, has the same amount invested in energy stocks, but has eliminated his capital gains tax on the $100,000 worth of gifted shares.

2. Rebalance the portfolio. Growth stocks have dominated their value counterparts for several years. However, value stocks typically outperform growth stocks during periods of high market volatility, which was the case in 2022. Robert could make a gift of $100,000 in growth stocks, and then use his $100,000 in cash to purchase shares of value stock. Not only does Robert re-allocate his portfolio to a value bias, but he also receives a deduction for the full-market amount of the gift. This strategy can work well to reposition one's portfolio toward future appreciation and/or safety as the market and economic cycles shift, without the concern of triggering a capital gains tax.

3. Gift concentrated or overweight positions to charity. Some investors may have a concentrated position in company stock. For example, Robert owns several hundred shares of stock from a company where he once was a member of the management team. A portion of those shares could be donated to charity, which would reduce his concentrated position. A new investment of equal value would diversify Robert's portfolio and possibly offset a large capital gains tax. This strategy also applies to gifting overweight positions.

4. Eliminate positions no longer wanted. Shareholders choose to sell out of investment positions for a variety of reasons. It could be related to a significant loss of value of a particular high-risk stock. Perhaps the investor no longer feels a company shares the same values. However, liquidating a position could trigger a tax drag if there are embedded capital gains. Investments where there could be a large capital gains distribution could instead be gifted to remove them from the portfolio. Robert could take a full deduction the donated stock and invest in another security without triggering capital gains.

Gifting appreciated stock can be beneficial to both the donor and the recipient organizations. However, there are multiple complexities to consider. Talking to a Commerce Trust advisor, as well as a tax professional, are the first steps to determine whether charitable giving strategies makes sense for you and your family.

*As of December 31, 2022.

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Mark is Market Executive for the Illinois and Wisconsin regions of Commerce Trust. In this role, he leads a team of professionals responsible for ensuring the growth, protection and preservation of client assets and delivering an outstanding client experience.

Mark joined Commerce Trust in 2021. Previously, he was Managing Director at US Bank Private Wealth Management and Managing Director of BMO Private Wealth Management. Mark earned his Bachelor of Arts in Economics and Political Science, cum laude, at Northern Illinois University, his Juris Doctor, with distinction, at the University of Iowa College of Law, a Masters in Science of Taxation from Golden Gate University, and his Masters of Laws in Taxation, cum laude, from the Charles Widger School of Law, Villanova University. Mark serves as a board member at Goodwill Industries, a Roundtable member of the Cedarburg Community Foundation and a founding member and Co Chairman of the Hastings Society for Economic Development. In his free time Mark enjoys playing golf with his daughters and oenology.

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Meghan is a private client advisor for Commerce Trust Company. She serves as a consultant and relationship manager providing clients with personalized objective advice and oversight across all of our services, including trust administration, financial advisory services, private banking, and investment management. Meghan facilitates all aspects of relationship management for the client team, including administering complex trusts, maintaining client communication, and coordinating with internal and external partners to deliver a superior client experience. Meghan has been involved in trust administration since 2015. She received her Bachelor of Arts in English from the University of Illinois. Meghan has earned the Certified Trust and Fiduciary Advisor (CTFA) designation from Cannon Financial. She is involved with the Eastern Illinois Estate Planning Council and enjoys volunteering with the Bloomington Community Service Committee in her spare time.

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