GIFTS OF STOCK

Owners of concentrated stock positions face difficult choices regarding how to access this wealth. Because the value of the stock may represent a significant portion of an owner's net worth, managing the position becomes increasingly challenging.

Typically, the concentrated position has a significant built-in gain, which makes the owner hesitant to sell for fear of incurring a big tax liability. Taxes can paralyze the planning process and expose the owner to price volatility.

Often, the owner weighs two simple options for managing these positions: continue to hold the shares or sell them. But there are other options to consider, such as giving the stock away.

Types of giving

There are two primary options commonly considered when contemplating a gift of stock: gifts to family and gifts to charity. Both may provide significant benefits to the donor, as well as to the recipient. To explore which option may be most beneficial to the owner, it is important to understand the advantages and disadvantages of the two.

1. **Gifts to family.** Making a gift of stock to family members is a simple yet effective choice for reducing the risk associated with owning a concentrated stock position. Below are some factors to consider when deciding whether a gift of stock to family members may be the appropriate strategy.

Benefits

- The owner immediately divests him- or herself of the market risk associated with the stock.
- The owner transfers any tax liability associated with the position to the recipient.
- The transfer of stock and future appreciation of shares is removed from the taxable estate of the original owner.
- The gift may provide the recipient with economic opportunities otherwise unavailable.
- Outright gifts to individuals valued up to $13,000 (the value of the applicable gift tax exclusion in 2011) may not be subject to gift tax.

Downsides to consider

- The recipient will carry over the cost basis of the donor, which may result in significant taxes on a subsequent sale of the shares.
- The donor no longer retains access to the wealth associated with the gifted position.
- Gifts of significant value could lead the recipient to become complacent and no longer strive to continue earning his or her own wealth.
- Gifts valued above $13,000 (in 2011) are taxable, which will result in the reduction of the donor's lifetime gift tax exclusion ($5 million in 2011 and 2012) or the payment of gift tax out of the donor's pocket.

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2. **Gifts to charity.** Owners of concentrated stock positions can benefit from gifting stock to charitable organizations. Determining whether this is an appropriate option requires understanding the potential advantages and downsides associated with doing so.

Benefits

- Similar to a gift to a family member, the donor immediately divests him- or herself of the market risk associated with the shares given.
- Once the stock is transferred to the charity, the donor avoids any tax liability built into the position.
- A gift of long-term capital stock to a public charity provides an income tax deduction equal to the fair market value of the stock on the date of the gift. **Please note:** The amount that may be deducted is limited to 30 percent of the donor's adjusted gross income (AGI). Any unused deduction due to the AGI limitation may be carried forward for five years.
- The gift to charity reduces the donor's taxable estate.
- Gift tax does not apply to gifts made to charitable organizations.
- The gift provides the charity with a much needed source of funding to carry out its mission.

Downsides to consider

- The donor loses control and access to the wealth associated with the gifted position.
- The gifted shares are no longer part of the donor's estate, which decreases the amount available for heirs.

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