

Gifts of Cash and Stock

Cash

Click on the “Donate to RMS” button at the top of this site for payment by check, purchase order, or credit card. Donations by cash, check, money order, or credit card are deductible if you itemize your taxes in the year you make the contribution - up to 50 percent of your adjusted gross income (AGI). By timing your gift before December 31, you will see a tax break for the year you itemize deductions on your tax return. The postmark date (for checks) or the day the credit card charge is authorized is considered the gift date. Any excess deductions can be carried forward for the next 5 years. If you are in the 28 percent tax bracket, the cost of a \$10,000 cash gift is only \$7,200 because your taxes are reduced by \$2,800. If you typically make annual cash donations, you might want to consider endowing your gift, which allows it to continue in perpetuity (see chart below).

How to turn an annual donation into a forever gift (these figures reflect a 5 percent annual return on your investment)

If you annually donate:	You can perpetuate your donation with a gift of at least:
\$100	\$2,000
\$200	\$4,000
\$300	\$6,000
\$500	\$10,000
\$1,000	\$20,000
\$2,000	\$40,000
\$5,000	\$100,000

Q. What is the federal gift tax and how does it work?

A. The federal government places a tax on gifts you make to other people during your lifetime. Each year, however, you may give up to \$12,000 to as many people as you like (\$24,000 for "split gifts" by a married couple) and not be subject to a gift tax. Under current tax law, any gift tax liability for gifts above \$12,000 is sheltered by the unified credit of \$2,000,000 of gifts and of your estate from gift or estate tax liability. The exclusion amount remains at \$2 million until 2009 when it will increase to \$3.5 million. Generally, the donor, not the recipient – is responsible for the tax, and must file a gift tax return, but unless the exclusion amount is exceeded, no tax is due. If required, your gift tax return is due the same time as your income tax return. The good news is that all transfers to your spouse or to a non-profit organization, such as the RMS, can be made tax-free.

Stock

Many circumstances can motivate one to consider a gift of stock. Illustrated below are the possible savings which could result from a charitable donation using appreciated stock versus cash. Assume you have stock (held for more than one year), which you could sell for \$5,000, and it originally costs \$3,000. Due to appreciation, you have an

untaxed capital gain of \$2,000. If your marginal income tax rate is 30 percent (20 percent on capital gains), the difference in net cost between giving cash or the stock can be significant:

Example

	Giving Cash	Giving Appreciated Stock
Value of gift	\$5,000	\$5,000
Tax savings from use of deduction (30 percent rate)	(\$1,500)	(\$1,500)
Tax savings from avoidance of capital gains (20 percent rate)	N/A	(\$ 400)
Net cost of cash gift	\$3,500	\$3,100
Cost as % of gift	70%	62%

If you have more appreciation in the contributed stock, or are in a higher combined federal and state tax bracket, your savings increase and the cost of your gift decreases. It also makes sense to use appreciated securities for charitable gifts, instead of cash, if you want to keep the securities as an investment. If this is the case, you could donate the securities to RMS and then buy new securities thus obtaining a new cost basis equal to the fair market value.

Gifts of Securities or Property

Gifts of appreciated securities (individual stocks, bonds, mutual funds, or certain types of appreciated property held for longer than one year) are a great way to support the RMS and receive multiple tax benefits at the same time. If you are considering a significant charitable gift, you should look first to your stock portfolio. Not only are stocks generally deductible from income tax at full fair market value, giving in this way enables you to bypass capital gains tax otherwise due if the donated assets were sold. For example, say you want to donate a stock you could deduct the entire market value of the stock, including the capital appreciation. Your result is a lower income tax (because you have deducted the gift amount from your income) up to a limit of 30 percent of your AGI, with a five-year carryover for any excess.

Other tax advantages when donating stock, as opposed to selling it, are: 1) If you believe the stock will continue to increase in value; you may donate it and use the cash you might have used to repurchase the same investment. In so doing, you continue to own the same security, but enjoy a new, higher cost basis. As a result, you could have less gain to report on a future sale at a higher value. 2) You may also benefit from deducting losses should the security decline in value in the future. By contrast, when you donate the stock to a non-profit organization such as the RMS, you are not subject to any capital gains tax on the appreciation. Securities held for more than a year make good charitable gifts because the donor receives a charitable income tax deduction for their full fair market value.

Stocks are easy to transfer. Instruct the broker to notify the RMS when the stocks have been transferred (mailed or electronically transferred to the RMS bank account) which can be done by creation of a temporary account in the RMS' name. Another method is for the donor to provide an RMS account number to which the stocks should be sent. The date of the gift is when the securities are considered beyond the donor's power to regain control. Should the donor have actual possession of the physical securities (which is rare), they can be either hand-delivered or mailed to RMS. If mailed, the stock certificates and the stock power must be sent separately. The date of the gift is

the day the envelopes are postmarked. If you use a private carrier to send them, the date of the gift is the day the RMS actually receives the stocks.

If you own investments that have decreased in value since you have owned them, consider selling them and making a charitable gift of all or a portion of the cash proceeds. In addition to an income tax deduction for the cash contribution, this creates a loss you may be able to deduct from other taxable income. The combined amount of the deductible loss and the charitable deduction could actually total more than the current value of the investment. Whether you make your gift in the form of cash or other property, deductions may reduce your taxes in as many as six years.

Closely Held Stock in a Family Business or Corporation

If you are an owner of stock that is highly appreciated yet not readily marketable, such as shares in a family business, you may have the opportunity to be philanthropic at a minimal cost. You could make an outright charitable gift of stock in your corporation. The corporation, preferring to keep its stock closely held, may subsequently offer to buy the stock back from the RMS at its appraised value and the RMS, preferring to hold marketable securities or usable cash, would more than likely agree to sell to the corporation. However beware: no sale between the RMS and the corporation can be pre-arranged if you wish to avoid the capital gains tax. If you are the sole stockholder, you will still own 100 percent of the equity if the corporation buys back the stock and retires it as treasury stock. From the corporation's point of view, excess profits have been distributed without a penalty tax. An alternative is for younger family members and key employees to purchase the stock. In addition to supporting the RMS, you will have effectively transferred some of the ownership without a capital gains tax or receipt of constructive dividends.

Charitable Gift Annuities

Under the terms of a gift annuity, donors can make a charitable gift of cash or other property as receive fixed payments for life. The frequency and amount of payments are determined at the time the annuity is funded. The payments never change and continue regardless of how long the donor and/or other recipients live. Depending on the volatility of the stock market and/or in times of declining interest rates, many look for ways to ensure reliable income for either themselves or their loved ones. Charitable gift annuities, part gift and part annuity, are simple contracts between one or two donors and the RMS. Depending on the solvency (financial health) of the RMS, the contract (negotiated with the RMS) could require the RMS to pay a predetermined stream of income (never decreasing in size regardless of economic conditions) to you (or a person you name), for life (or term specified), in exchange for the gift. After that time, the remainder of your gift goes to the RMS. The older the annuitant (donor) at the time of the gift, the higher the payment (annuity) rate. Rates in 2003 range from 5.7 percent (age 60) up to 9.5 percent for those over age 85. Gift annuities may not be available in all states or from all organizations - including the RMS.

Example: Alley Jay, age 77, gift amount: \$10,000. The charitable gift annuity is an agreement between the donor, Alley Jay, and the RMS. In exchange for an irrevocable gift, the RMS agrees to pay Alley a fixed lifetime income, or annuity. With Alley's age of 77, her annuity rate is, say, 7.6 percent. (The annuity rates may vary from year to year and on other factors – see note below). The income and tax benefits for a gift amount of \$10,000 would include a charitable deduction of \$4,165.90 for federal income tax purposes in the year of her gift. The annual payment would be \$760.00 to her with some \$525.92 (amount of the annual payment) considered tax-free for federal income tax purposes. The rest would be reported as ordinary income. After 11.1 years, Alley's entire payment is considered ordinary income.

The older you are when you establish the donation, the higher the annuity rate. Other benefits include:

- *Annuity payments partially tax-free;
- *Charitable tax deduction in the year you make your gift;
- *Potential capital gain savings and estate tax benefits; and
- *Satisfaction in knowing you are providing support for river management professionals and North America's rivers.

Note: Rates of payment for gift annuities with RMS are based on prevailing rates prepared by actuaries of recognized insurance companies, taking into account current life expectancies and prevailing economic conditions.

Note: Because prevailing rates may shift up or down, be sure to request the latest rate information (and age category) before making your gift.

Deferred Gifts - Cash, Stock, or Mutual Fund Shares

Donations of these items can be put in a deferred gift annuity with the annuity payments beginning at a future date of the donor's choice. The tax deduction is immediate for a significant portion of the gift. The deduction can be used to shelter higher earnings, bonus, or reportable income from exercising nonqualified stock options. Sample annuity rates for individuals ages 40-60 who choose to start payments at age 65 are as follows:

Age Now	Annuity rate
40	20.4%
50	15.3%
60	8.8%

Defer the payment longer and the rate may increase dramatically, e.g., if a 60 year-old elects to have payments begin at age 70, the annuity rate increases from 8.8% to 12.4%. Any gift will help the RMS meet its goals and objectives for future generations.

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