**Benefits of a Gift of Long-term Appreciated Securities
to St. Anne's School of Annapolis**

As we approach the end of the year with the stock market at a record high (up >20% over the last year and >100% cumulatively over the last 5 years), it is worth **highlighting the attractiveness of donating appreciated securities for charitable contributions such as St. Anne's annual fund**.

While every family's tax and personal situations are unique, I wanted to provide a simple example to illustrate the power of donating appreciated securities for a family in a high tax bracket.

Let's assume a $10,000 donation of stock that had appreciated by 100% (i.e. original investment was $5,000) from a family with a marginal tax rate of 40% (would be higher if you include state tax but using 40% for simplicity).

While the school receives the full $10,000 donation, the after-tax cost for the family is much lower <u>especially if you consider what their after-tax proceeds would have been if they simply sold the security</u>.

In this case, the family will receive a tax refund worth 40% of the $10,000 or $4,000. As a result, their simple after-tax cost would be $6,000.

Further consider that to realize that investment, the family will ultimately have to pay tax on the embedded gain if this is a security they will ultimately sell.

Assuming a 25% tax rate (LT capital gain) on the $5,000 gain would have resulted in a $1,250 capital gains tax, reducing the $10,000 to $8,750 on an after-tax basis.

As a result, the **net after-tax cost to the family from donating $10,000 was actually $8,750-$4,000 (refund) or $4,750 when considering the tax on the embedded gain** (that will have to be paid if the security is ever sold) resulting in a **<u>compelling ratio of >2:1x (you give 1 after-tax and the school gets 2).</u>**

The most extreme example (less common but very plausible) would be a security with a near zero basis (e.g. certain stock options (ISOs) result in this tax treatment), where selling would incur a short-term gain (~40% tax rate). In this scenario, **a $10,000 donation would effectively cost the family (using same logic above) $2,000 for an incredible 5:1x ratio**.

Everyone's situation is different but the important takeaway away is that **donating securities that have significantly appreciated (particularly if you are in a high tax bracket and are likely to sell the security at some point) is an extremely effective and impactful way to donate to St. Anne's**.

The annual fund is a critical component of the operating budget of the school.

If you are in the position to do so, we ask that you **consider a meaningful gift to the St. Anne's annual fund as you go through your end of year tax planning. In many cases, using appreciated securities instead of cash can significantly amplify your gift on an after-tax basis**.

EXAMPLE

Cost basis	$ 5,000
Current value (100% over 5 years)	$10,000
Charitable deduction	$10,000
Federal tax savings on the charitable gift, assuming a 40% tax bracket ($10,000 x 40%)	$ 4,000
Long-term capital gains tax avoided when gifting vs. sale of securities, assuming 25% rate ($5,000 gain x 20%)	$ 1,000
Total tax savings	$ 5,000
Actual cost of gift to the donor ($10,000 - $5,000 tax savings)	**$ 5,000**

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