Having the best options for your clients when tax time comes around is part of being a professional CPA. All clients want to decrease tax burden and increase deductions to maximize after-tax income for the year. There are many options available to help in that pursuit, but some are more well-known than others.

Charitable donations offer a variety of tax planning opportunities to get the largest tax deduction for a client. Donating appreciated assets is more tax-favorable when supporting a nonprofit than donating in other ways. A client's tax deduction is calculated at the fair market value of the stocks without paying any capital gains taxes on the appreciation.

Since the donor isn't paying capital gains taxes on stock donations, more substantial contributions are possible at the same out of pocket cost. It also offers an additional avenue for donations that nonprofits can take advantage of to maximize the gifts they receive each year.

Tax Benefits Associated with Stock Donations

For clients interested in philanthropy, donating publicly traded appreciated stock to a nonprofit offers the best tax advantages. There are several benefits to clients who choose to donate stock shares. As a CPA, there are many reasons to recommend that clients choose this option.

- If a client donates stock shares are at least one year old, the shares are deducted at fair market value. A stock that has increased in value since being purchased can be claimed for a full tax deduction. Stocks that have decreased in value can be sold first so clients can take a loss for their taxes.
- When donating appreciated stock, your clients can give up to 37% more than if a donation was made using cash from selling a stock. This is possible since stock

donation avoids capital gains taxes, which can be more than one-third of the

As an example, a client who sells a stock for $30,000, where $20,000 is profit could experience taxes of up to $7,400. This results in the nonprofit receives $22,600 if the stock is first sold and then donated. However, when a client donates the actual shares directly to the charity, the entire $30,000 is donated and no taxes are present.

How Changes to the CARES Act Made Donating More Beneficial

The CARES act was put into place due to COVID-19 and is known for offering small businesses the Payroll Protection Program. However, there have been several other changes related to nonprofits that make this an excellent time to donate to organizations clients care about. There are two new tax benefits for donors:

- With 90% of people not itemizing their nonprofit donations, the CARES Act lets those taxpayers deduct contributions of any type (cash, stock, etc.) up to $300 on their tax return even when taking a standard deduction. Married couples that file jointly qualify for a deduction of up to $600.
- For the 10% of donors who choose to itemize deductions to write off giving to charity directly, the cap is 60% of their adjusted gross income.

With the CARES Act, caps are lifted to 100% for both joint and individual filers and increased to 25% for corporations. For a client who donates a large amount, this can lead to zero taxable income. Note that this does not apply to stock donations, and only cash contributions.

As an example, if a taxpayer makes $200,000 in gross income, usually a deduction of up to $120,000 would be possible when donating to charity. With changes to the CARES Act, this person can deduct up to $200,000 of their income when giving that same amount to charity for the year.

Making the Process of Donating Stock Simple for Clients

While some charities go through a manual process to accept stock donations, more

Stock donations are important to consider whether your clients are individuals or non-profit charities. Changes to the CARES Act have made stock donation a better option than ever.

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Alex Chung partnered with a San Francisco Bay Area non-profit to start Cocatalyst.org, and remains on the board. In his free time, he is studying social impact, new technologies, and investment/personal finance strategies. He is a machine learning product management lead at a major tech company. Prior, he ran a global investment fund focused on emerging market debt.

Benefits