Cape Cod Healthcare Foundation

# Planned Giving

An Investment in Cape Cod's Future

## Giving Appreciated Assets: How to Get the Most Out of Them

Smart gift planning combines charitable intent with cost-efficient techniques. Of critical importance is the type of asset used to fund the gift. Usually, a gift of long-term appreciated assets can generate the most favorable tax benefits. **Reason:** Gifts of such assets provide a double benefit—an income-tax charitable deduction, in most cases for the full fair-market value of the assets, plus avoidance of any potential capital-gain tax.

This guide takes an in-depth look at the benefits of using various kinds of appreciated assets to implement some of the most popular planned-gift options available today.

### Outright Gift: Securities and Real Estate

The most common types of appreciated assets contributed to charities are securities and real estate.

**Charitable deduction.** If you contribute securities or real estate owned more than one year (known as "long-term" assets), you receive a charitable deduction for the assets' full fair-market value (FMV). Gifts of assets owned one year or less ("short-term" assets) provide a deduction for the lesser of FMV and your cost basis of the assets.

You can deduct—in the year of the gift—the FMV of long-term appreciated assets, subject to a limit of 30% of your adjusted gross income (AGI). Any excess can be carried forward for up to five years.



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**Example:** Todd, who is subject to a 35% federal income-tax rate, contributes to our organization securities he purchased several years ago for $10,000 that are now worth $30,000. He can deduct the FMV of $30,000, and he is not taxed on the $20,000 of capital gain. If he had sold the securities, his tax on the capital gain would have been $4,760 ($20,000 x 23.8%). The deduction results in income-tax savings of approximately $10,500 (35% x $30,000). Total tax savings are $15,260 ($4,760 + $10,500), resulting in a net cost of only $14,740 ($30,000 - $15,260). Please note that the exact amount Todd can claim as a charitable deduction depends on two factors: the total amount of his charitable gifts (including the deduction described here) and his adjusted gross income.

**Note:** In this and other examples, only federal income-tax savings are considered. If you reside in a state with a state income tax, there could also be state income-tax savings.

**HOW CAPITAL-GAIN TAX RATES DEPEND ON INCOME**

| Income | Capital-Gain Tax Rate | 3.8% Sur-charge | Total Tax | Possible Savings |
|---|---|---|---|---|
| up to $49,450 (single) | 0% | 0% | 0% | 0 |
| up to $98,200 (couple) | 0% | 0% | 0% | 0 |
| $48,451-200,000 (single) | 15% | 0% | 15% | 15% |
| $98,201-250,000 (couple) | 15% | 0% | 15% | 15% |
| $201,001-545,500 (single) | 15% | 3.8% | 18.8% | 18.8% |
| $250,001-613,701 (couple) | 15% | 3.8% | 18.8% | 18.8% |
| $545,501+ (single) | 20% | 3.8% | 23.8% | 23.8% |
| $613,701+ (couple) | 20% | 3.8% | 23.8% | 23.8% |

The 3.8% surcharge applies to a single person whose adjusted gross income exceeds $200,000 and to a married couple whose adjusted gross income exceeds $250,000.

## Tax Rates on Capital Gain

The Tax Cuts and Jobs Act of 2017 made a number of sweeping changes that took effect in 2018, and a number of these changes were made permanent by the One Big Beautiful Bill Act of 2025. Two such changes were an adjustment of the income-tax thresholds and a reduction of the highest rate to 37%. The tax act retained the 0%, 15%, and 20% rates on long-term capital gain. However, when the 3.8% surcharge on capital gain is factored in, there are actually five possible tax rates on the capital gain in securities and nondepreciated real estate—namely 0%, 15%, 18.8%, 20%, and 23.8%. This surcharge was added to help cover the cost of the Affordable Care Act.

The tax act also reduced the number of persons who will itemize deductions by reducing or eliminating certain deductions and exemptions and increasing the standard deduction. The standard deduction (indexed for inflation) was nearly doubled, and in 2026 it is $16,100 for a single individual and $32,200 for a married couple filing jointly.

**Note:** Many individuals who make planned gifts are older than 65, and therefore they can claim an even higher standard deduction.

Even if an individual cannot deduct the full amount of a donated asset because of the tax law changes, there are often additional factors that drive the decision to make a gift—which might include fulfilling an intention to give back to support an organization that assisted you or your family. Reducing risk from holding a large block of stock, providing a stream of income for retirement, and opting for a gift that provides non-taxable income are all possible with a well-structured charitable gift. Please discuss your goals and objectives with your tax advisor.



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## Suppose You Want to Hold On to Your Appreciated Stock

From a tax standpoint, contributing appreciated assets is better than giving cash. Nevertheless, you may hesitate to give appreciated stock because you believe the value will continue to go up. You could contribute the stock and then use the cash you would have donated to repurchase the stock, thereby getting a stepped-up basis.

**Example:** Karen owns stock now worth $100,000 that she purchased for $20,000, and she believes the stock might double in price within the next few years. Not wanting to lose her position in this stock, she had planned to make a special $100,000 charitable contribution with cash; but instead she gives the stock and uses cash to repurchase it. Her charitable deduction is the same—and if the stock rises in value to $180,000 in the future and she sells it, she will be taxed on $80,000 of gain rather than $160,000 of gain.

## Outright Gift: Tangible Personal Property

If you contribute long-term appreciated tangible personal property (*e.g.,* works of art, rare books, stamp or coin collections, etc.), you also receive a double benefit. You avoid paying tax on the appreciation and receive an income-tax charitable deduction for the gift. However, the amount of the deduction depends on whether the asset is put to a "related use."

If the use of the contributed property is related to the exempt purposes of the charitable organization (*e.g.,* a donation of a painting to a museum or rare books to a library), then you can take an income-tax charitable deduction for the full FMV of the property—subject to the 30% ceiling and carryover limitations. **Caution:** If the use of the property is unrelated to the exempt purposes of the organization (*e.g.,* a stamp collection to a hospital to sell and use the proceeds), your deduction would be limited to your cost basis even if the assets have appreciated in value.

**Example:** Mike contributes long-term capital-gain tangible personal property to a charitable organization. The property's FMV is $50,000, and its cost basis is $15,000. If the property can be put to a related use, then Mike can deduct the $50,000 FMV. However, if the use is unrelated to the organization's exempt purpose, then his deduction is limited to his $15,000 cost basis.

**Note:** Unlike securities and certain types of real estate, the maximum capital-gain tax rate for tangible property is 28%. If the surtax applies, the tax rate would be 31.8%.

## Income Plans

You may wish to make a significant gift of long-term capital-gain securities or real estate to support our work but need income from the assets to meet personal and family objectives. If this is the case, then using the appreciated assets to fund a charitable remainder trust may be a wise option.

A charitable remainder trust is similar to other types of trusts except that the amount that is distributed at its termination (the remainder) is paid to a charitable beneficiary. You transfer assets irrevocably to a trust and specify:

- The trustee, which could be our organization, a financial institution, a trusted advisor, or the donor.
- The amount of the payments to be distributed (usually expressed as a percentage of trust assets).
- The beneficiary(ies) who will receive the payments.
- The duration of payments: a period of years or the lifetime of the beneficiary(ies).
- One or more nonprofit organizations that will receive the remainder.

When you establish a charitable remainder trust, you receive an income-tax charitable deduction in the year the trust is created. The deduction equals the present value of the remainder interest that will pass to the charitable beneficiary when the trust ends. The size of the deduction depends on many factors, including the value of the assets funding the trust; the age(s) and number of the beneficiary(ies) or the length of the fixed term; and the selected payout rate.

To receive favorable tax treatment, a charitable remainder trust must be either an annuity trust or a unitrust. **The charitable remainder trusts chart compares the two types.**

| Charitable Remainder Trusts | | |
|---|---|---|
| | **Annuity Trust** | **Unitrust** |
| **Payment Level** | Fixed | Variable |
| **Payment Amount** | Fixed % of trust's initial FMV | Fixed % of net FMV valued annually |
| **Payment Percentage** | At least 5% | At least 5% |
| **Payment Frequency** | At least annually | At least annually |
| **Trust Term** | Lives of beneficiaries or fixed term not to exceed 20 years | Lives of beneficiaries or fixed term not to exceed 20 years |
| **Remainder Beneficiary** | Qualified charity | Qualified charity |

The key difference between a unitrust and an annuity trust is in the nature of the payments. Payments from an annuity trust are fixed and do not change even though the value of the trust may change. Payments from a unitrust, however, fluctuate according to changes in the value of the trust. Because of this difference, an annuity trust may be more appropriate when the beneficiary needs a fixed, dependable stream of income. The unitrust may be the better choice if some hedge against inflation is desirable, assuming that trust assets grow at least as rapidly as the cost of living.

The following example shows how a charitable remainder trust funded with appreciated securities can benefit both the donor and our organization.

## Increasing Spendable Income

Historically, high capital-gain taxes have exacerbated the old investment dilemma of the "locked in" position. Essentially, what happens is this: An investor may want to sell holdings in order to reduce exposure, reinvest for a higher yield, or rebalance the portfolio but is reluctant to do so and realize a taxable gain. Any tax on gain will reduce the amount available for reinvestment.

**Example:** Carl, 79, is in the 35% income-tax bracket and owns stock worth $200,000 that he bought several years ago for $100,000. The stock pays no dividends, and Carl would like to shift into an income-producing investment that pays a fixed amount. If he sells, he will pay $18,800 in capital-gain tax (18.8% rate including the surtax)—leaving just $181,200 to reinvest.

Carl faces a troublesome choice—he must either be content with no current income or sacrifice $18,800 of the principal. But because another of Carl's objectives is to make a substantial gift to our organization, he has a third option available to him.

**Here's how it works:** Carl uses the stock to fund a charitable remainder annuity trust that will pay him 5.5% of its initial value each year for the rest of his life. At his death the trust principal will pass to us.

Because the trust is tax-exempt, it can sell the stock and reinvest the proceeds in income-producing assets without paying tax on the gain. Thus the entire $200,000 of proceeds can be reinvested. Each year Carl will receive $11,000 (5.5% of $200,000).





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**Consider the benefits of this arrangement for Carl:**

- He receives a deduction of $118,886 saving him approximately $41,610 in taxes. Please note that when Carl does his taxes, this deduction amount will be added to the rest of his charitable gifts. The amount he can claim as a charitable deduction will be his total charitable gifts less 0.5% of his adjusted gross income in the year of the gift.
- He avoids paying any capital-gain tax on the $100,000 appreciation.
- He increases his spendable income by $11,000 per year.
- We will receive a significant gift when the trust terminates.

## Augmenting Retirement Income

Individuals are taking an active role in planning their own retirement to ensure that sufficient income will be available to meet their needs. As they examine options, many are beginning to look to charitable plans as a way to augment their retirement income.

**Example:** Mary, 55, a successful professional, wants to make a major gift to our organization. She does not need any more current income, but she could really use a current income-tax deduction. At the same time she would like to take steps to enhance her retirement, which she anticipates will be in about 12 years.

Mary owns certain growth securities that she purchased 15 years ago for $50,000. The securities are now worth $200,000, and she expects them to continue appreciating in value.

After careful consideration, Mary decides to contribute the securities to a unitrust that will pay her 6% of its value for life. The trust includes a so-called “flip” provision that, until a certain date, limits payments to net income—if that income is less than the percentage amount. At the age of 67, when she expects to retire, the trust will “flip” or convert to a regular unitrust that will pay 6% of trust assets each year—and those payments can come from interest, dividends, realized gain, or capital. Prior to her turning 67, she receives little income because the trust assets are invested in a growth-oriented portfolio and most of the very modest dividends are used for trust expenses.

Assuming the securities have appreciated in value to $351,000 by the time she turns 67, she would receive for the year she attains that age $21,060 (6% x $351,000) and her income will continue to be 6% of trust assets as annually redetermined. She is not taxed on the capital gain when she transfers the securities to the trust, and the trust is not taxed on the gain when it sells the securities. Moreover, at the time she establishes the trust, Mary receives a charitable deduction of $48,854.

## For More Information

Giving appreciated assets rather than cash can provide you with enhanced benefits. We would be happy to discuss with you how a gift of appreciated assets might fit into your own personal, financial, and charitable planning. For more information, please feel free to write or call.

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