Gift Planning Tip: Other than cash, securities (e.g., stock shares, mutual fund shares, bonds) are the most popular asset for funding charitable gifts to Penn State.

Publicly traded securities are usually very marketable, have a clear value, and are easily transferred. Tax laws heavily favor gifts of assets that have increased in value.

Publicly Traded Securities

A gift of appreciated stocks, bonds, or mutual funds that have been held more than one year is a popular alternative to contributing cash. Through a gift of securities you may avoid the capital gains taxes on the appreciation and receive a charitable income tax deduction. Beginning in 2013, some high income taxpayers may also avoid the surtax on net investment income.

Why Should I Consider a Gift of Securities?

If your securities have appreciated in value, you have the opportunity to avoid capital gains tax that would be applied to the appreciation when the securities are sold. You may also earn a charitable income tax deduction for the full market value of the securities. With the tax savings, the “cost” of your gift to Penn State may be much less than the actual value of the gift made—and preferable to a gift of cash. In a sense, the IRS pays for a portion of your gift!

Opportunity:
Mr. and Mrs. Lion give Penn State stock shares valued at $10,000 (full fair market value)

Stocks were purchased several years ago for $2,000 (cost basis)

<table>
<thead>
<tr>
<th>Result:</th>
<th>Federal Tax Bracket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gains (CG) tax avoided</td>
<td>if 35%...   if 39.6%...</td>
</tr>
<tr>
<td></td>
<td>$1,200   $1,600</td>
</tr>
<tr>
<td></td>
<td>(15% CG rate) (20% CG rate)</td>
</tr>
<tr>
<td>Savings from income tax</td>
<td>$3,500   $3,960</td>
</tr>
<tr>
<td>charitable deduction b</td>
<td></td>
</tr>
<tr>
<td>Actual “cost” of $10,000 gift</td>
<td>$5,300   $4,400</td>
</tr>
</tbody>
</table>

a – Calculated are only the capital gain taxes avoided of 15% or 20%. Some donors in the 35% and 39.6% tax brackets may also be subject to the net investment income surtax of 3.8% for capital gains. Taxpayers subject to this surtax would avoid additional tax of $304, resulting in an even lower cost of gift amount.

b – Excludes the potential applicability of the Pease Limitation on itemized deductions. Taxpayers’ other deductions, such as those for state and local taxes or real estate taxes and/or mortgage interest, are often sufficient to absorb the Pease Limitation amount, if applicable. Thus no amount of the limitation may be applicable to the taxpayers’ charitable deduction. Additional benefits may apply in states where charitable deductions are allowed.

Tip: If you prefer to receive some of the proceeds from selling the securities, consider selling some shares and giving the remainder to Penn State. The charitable income tax deduction for the shares given to the University can offset the capital gains tax due on the shares you sell.
Let us help you plan.
Penn State’s Office of Gift Planning has a staff of charitable planning professionals with resources available to fully support both your investigation and implementation of gift planning techniques. Our services are confidential and collaborative, and provided without cost or obligation.

Please contact us to assist you, your family, and your advisers in exploring financial, estate, and charitable planning. Or visit our interactive gift planning website at giftplanning.psu.edu.

What If I Want to Continue Investing in the Security?
You can give the security and then repurchase additional shares with the cash you were considering giving to Penn State. You may avoid the capital gains tax on the charitable gift, yet continue to hold new shares with a higher cost basis (purchase price). When you eventually sell the new shares, you can take advantage of the lesser taxable capital gain—or a greater tax deductible loss if the value decreases.

What If My Securities Declined in Value?
One option is to sell the securities, enjoy a potential income tax deduction for the capital loss, and give the cash proceeds to Penn State. A charitable income tax deduction is available for the charitable gift.

Can I Also Earn Income Payments From My Gift?
Penn State offers a number of “life income arrangements” that allow you to make a gift while retaining an income for yourself and/or someone else. If appreciated securities are used, you may avoid or defer the capital gains taxes that you would otherwise pay. Some plans allow you to “lock in” an income that no longer depends on market fluctuations. Because some of the financial benefit is returned to you as income, the charitable income tax deduction will be less than for an outright gift of the securities.

How Can I Make a Gift of Securities to Penn State?
If the securities are held in “street name” or electronically in your brokerage account, contact the Office of Gift Planning for a securities transfer letter of instruction that can be presented to your account representative. Make sure you notify us of the intended designation for use of the gift. Caution: If your account representative sells the securities before transferring them, you may end up paying capital gains tax that you expected to avoid. Give clear instructions to transfer, not sell, the securities.

If you hold the securities as certificates, contact our office for a “stock power” form. Sign the stock power but do not enter other information or dates; our staff will enter that information based on the date we receive the documents. Mail the certificates in separate envelopes to our office.

What is the Date and Value of My Gift?
The recorded gift value of a publicly traded security is the average of the high and low market prices on the official gift date. Gifts transferred electronically are complete on the date Penn State receives the transfer, and some, such as mutual fund shares, can take up to six weeks. Gifts transferred by U.S. mail are complete on the postmark date. If a certificate and stock power are in separate envelopes, the later postmark applies. If transferred by commercial courier, the applicable gift date occurs when both the certificate and stock power arrive at Penn State.