Morgan Stanley

Leveraging Appreciated Positions to Reduce Taxes and Increase Your Charitable Giving

Marketable securities and mutual funds are the most common assets contributed to donor-advised funds at Morgan Stanley Global Impact Funding Trust, Inc. ("Morgan Stanley GIFT"). When these assets have appreciated (have been owned by the donor for more than one year and have since increased in value), donors can maximize their charitable donation and, in most cases, enjoy significant tax benefits.

Things to Remember Before Selling Appreciated Positions

For those who are philanthropic, charitable and tax planning are often conducted throughout the year; not just at year-end. For example, when reviewing the performance of a portfolio, it can be beneficial to donate to charity investments that have appreciated and become "overweighted" in a portfolio, as opposed to selling the positions and incurring capital gains tax. Additionally, if there has been a run up in the value of a position, rather than selling the position to "cash out," a donation of shares may be an efficient solution.

Although Morgan Stanley GIFT welcomes contributions at any time, it may also make sense to consider a charitable gift of an appreciated position as part of the donor's year-end tax planning.

Benefits of Making A Gift

- In 2015, if a donor chooses to sell the appreciated position, it would normally be subject to a federal capital gains tax of up to 20%. However, a donor does not recognize any capital gain when donating an appreciated position to Morgan Stanley GIFT. Similarly, neither Morgan Stanley GIFT nor the donor becomes liable for a capital gains tax when the position is sold by the donor-advised fund.
- Donating the position, rather than selling it, allows the donor to avoid paying the new 3.8% net investment income tax that otherwise could be added to the capital gains tax. This net investment income tax would apply to donors whose adjusted gross income, or AGI, exceeds $200,000 as an individual or $250,000 for a married couple filing jointly in 2015.
- The donor may claim an income tax charitable deduction based upon the full fair market value of the position. However, the amount deductible in the current year will be limited to 30% of the donor's AGI. Any excess deductions (in excess of the ▶

		EXAMPLE 1	EXAMPLE 2	
		Sale of Stock, Then Gift of Proceeds	Gift of Stock, Then Sale By Charity	Difference
A	FMV	100,000	100,000	
B	Basis	20,000	20,000	
C	Gain (A-B)	80,000	80,000	
D	Top Federal Tax Rate on Gain	23.8%	N/A	
E	Tax on Capital Gain (CxD)	19,040	N/A	19,040
F	After-Tax Proceeds (A-E)	80,960	100,000	(19,040)
G	Donation to Charity	80,960	100,000	(19,040)

30% limited) may be carried forward for up to five years.

- Additional limitations on the ability to claim itemized deductions (including the charitable deduction) apply to high-income donors whose AGIs exceed certain thresholds.

Examples

The following chart shows two different ways that appreciated investments may be used to benefit charity. The first example illustrates a sale of appreciated shares, followed by a donation of the after-tax proceeds to charity, while the second illustrates the donor's contribution of the shares to Morgan Stanley GIFT, which then sells them. In each example, the fair market value ("FMV") of the shares is $100,000, the donor's basis is $20,000, and the donor is subject to a 23.8% capital gains tax if they sell the shares themselves rather than Morgan Stanley GIFT.

As this example illustrates, a donor who donates the shares to Morgan Stanley GIFT, rather than selling the shares themselves and donating the after-tax proceeds, qualifies for a charitable deduction that is $19,040 higher because their gift was not subject to a capital gains tax.

Making A Gift

A donor should first notify their Financial Advisor ("FA") or Private Wealth Advisor ("PWA") if they wish to make a donation of an appreciated position to Morgan Stanley GIFT. After the FA/PWA submits the necessary paperwork, the Morgan Stanley GIFT team will send transfer instructions to the FA/PWA, who will then transfer the shares. Morgan Stanley GIFT will sell the shares upon receiving the contribution and the donor's account will be credited with the net proceeds from the sale. The donor can then begin making grants to charities, or wait to make grants, while investing the funds in one of a number of diversified portfolios or a money market fund. The donor also will receive a letter from Morgan Stanley GIFT acknowledging the contribution which can be used to substantiate their donation on their tax return.

For more information about Morgan Stanley GIFT and its donor-advised fund program, please consult the Donor Circular and Disclosure Statement or contact your Financial Advisor or Private Wealth Advisor.

CRC1220407 CS 8284381 07/15