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HOW TO GIFT STOCK AND OTHER FINANCIAL GIFTS

Stock can make a great gift for you and the recipient.

By: Coryanne Hicks - December 3, 2019

There are two types of gifts in the world: the depreciating kind and the appreciating kind. Depreciating gifts begin losing value the day they're bought. Appreciating gifts, on the other hand, only grow in value with time, like good investments.

Investments make some of the most impactful gifts. What's more, when given right, investment gifts benefit everyone. The recipient gets the benefit of appreciation (pun intended) and you can "save yourself from paying large gains in tax," says Joseph Polakovic, owner and CEO of Castle West Financial in San Diego. "All kinds of investments can be gifted from stock to real estate to private equity."

Here's how to gift stock and other financial things in the most impactful way possible – for you and the recipient.

How to Gift Stock to Charity

When you gift appreciated stock to charity, you get to take an income tax deduction for the stock's fair market value at the time of the gift (even if you bought it for far less) and avoid paying tax on any capital gains when it's sold. The charity, in return, gets a nicely appreciated financial gift they can sell at any time tax-free.

"The more the investment has appreciated, the better candidate it is for gifting purposes because it shifts the tax burden to the charity, which does not pay tax, while you still get the full deduction on the value of the gift," says Ken Van Leeuwen, managing director and founder at Van Leeuwen & Co. in Princeton, New Jersey.

"Gifting investments, and more specifically appreciated investments, to charity is usually a straightforward process" as most 501(c)(3) organizations will accept investments as donations, he says.

That said, it's still advisable to work with your accountant to determine the appropriate gifting amount and process. You could gift stock directly to the charity, create a donor-advised fund or private foundation, or use a charitable remainder trust. Which strategy is right for you will depend on your personal gifting strategy and goals, he says.

How to Gift Stock to Family

"Gifting to family can be a little trickier (than to charity) and has a few more considerations," Polakovic says. For non-charity gifts, it's important to keep the IRS gift tax limit in mind. You can gift $15,000 per year without incurring gift tax.

The limit "is the same if you made a cash gift, or a gift of investments," Van Leeuwen says. "In the case of investments, the gift amount would be the full market value of the investment on the date of the gift."

That said, going over the limit doesn't necessarily mean you'll have to pay gift taxes. All that happens is you are required to file a gift tax form for the year and the IRS will take the excess over the $15,000 limit off your lifetime gift exemption, Van Leeuwen says.

"Unless you have an estate that could be valued over the lifetime exclusion, then gifting over the annual limit should not be an issue, and there would be no federal estate taxes due upon the donor's passing," Van Leeuwen says.

This can make gifting appreciated investments to someone else a smart tax move because it would shift the tax burden to the recipient. If said recipient is a minor, all the better, as he or she would likely have a lower tax burden than you do.

The minor could then "sell the investment and file their own tax return for that year," Van Leeuwen says.

Note that "income over $2,100 on investments owned by children under age 19 (or college students to age 24) is taxed at much higher trust tax rates," says Will Heil, tax specialist at Klauenberg Retirement Solutions in Laurel, Maryland. So "their tax on dividends, interest and investment sales may be much higher than yours."

If you'd rather the child not sell the investment or want to retain some control over it or its proceeds, Ameriprise Financial Vice President of Financial Advice Strategy Marcy Keckler suggests placing it in a trust. The trust can stipulate that the child only gets access to the investment at the age of your choosing.

"You might also consider this if the recipient is legally an adult but you're unsure their decision on how and when to use the gift would be aligned with your intentions," she says.

However you choose to give stock, make sure you also give your recipient a record of its cost basis. "In many circumstances, when they eventually sell the investment, the taxable gain will be based on your cost," Heil says. "Don't assume that the company holding your investment has a record of the cost basis."

He also advises gift recipients keep a record of the investment's value on the date it was transferred.

If you don't have an investment you already own that you'd like to gift, you can instead purchase shares in the recipient's name. This can be a great way of supporting a cause they care about, such as by gifting socially responsible investments, Keckler says.

How to Make Other Financial Gifts

Stock isn't the only financial gift you can give. For instance, you could start or contribute to a savings account in someone else's name, Keckler says. If the recipient has earned income, doing this through a Roth IRA can be an even more impactful gift as the funds will grow tax-free until retirement.

Alternatively, you could give the gift of college tuition. Keckler says there are two ways to do this: By paying tuition directly to the school, which can avoid gift tax implications, or by opening a college savings plan such as a 529 plan.

The former is better suited for recipients who are already enrolled in college, while a 529 college savings plan works better for younger recipients who have time to let the investment grow.

"You may open different (529) accounts for each recipient or, in certain circumstances, reassign the beneficiary of one account as needed, such as to each grandchild as they come of age," Keckler says.

Savings bonds can also make good gifts. As "low-risk investments backed by the U.S. government," savings bonds provide the recipient a secure way to save, Keckler says. They also come with no fees, expenses or state or local taxes, which is more than can be said for many investments.

Some financial gifts, like real estate, may make better inheritance than living gifts.

"If your child were to sell the property, they are likely to pay gain from the point it was gifted to them," Polakovic says. "If you waited to pass the property through your estate, the basis in the house would reset and they don't owe any tax on the gains up until that point."