



Donating Securities

Donating publicly traded securities—such as stocks, bonds, exchange-traded funds (ETFs) and mutual funds—is a cost-effective and easy way to further the mission of New Earth Recovery (“NER”). You can have both the satisfaction of making a positive impact on the lives of people in recovery and possible income tax benefits.

Advantages

The primary advantage of giving appreciated securities is that the value of your gift equals the fair market value of the security at the time of the gift, not what you originally paid for the security. So, giving securities can be a cost-effective way to give to NER.

In addition, the federal income tax laws encourage the donation of appreciated securities to NER in other ways. The tax benefits, which vary according to your income tax situation, include:

- ✓ You avoid all federal capital gains and Net Investment Income Tax (NIIT) taxes that would have been due if you had sold the security.
- ✓ You get a charitable deduction equal to the fair market value of the security (not its cost basis), if you itemize your deductions on your income tax return.

Basic Requirements and Limitations

To be eligible for these tax advantages,

- You must have owned the security for at least one year.
- The security must be worth more than what you paid for it. (If you own securities with a loss, it’s usually better to sell first. By doing so, you can take the capital loss for tax purposes and then donate the cash.)
- If you itemize your deductions, your charitable deduction for the gift of the security is limited up to 30% of your adjusted gross income. (Any excess deduction can generally be carried forward and deducted over as many as five subsequent years.)
- The security transfer must be completed by December 31 to obtain a deduction for the current tax year.

Examples

Donating appreciated security is attractive to a wide range of donors. However, the tax benefits depend on your tax situation, including your filing status (single, married filing jointly, etc.), your tax bracket and whether you itemize your deductions or use the standard deduction. So, it is wise to check with your tax, financial or legal advisor to help you determine if making a gift of appreciated securities is appropriate for your situation.

As discussed below, the tax benefits depend on whether you itemize your deductions on your income tax return or use the standard deduction. Let’s look at an example to help you decide if donating appreciated investments is a good option for you. Let’s assume that Mary and John, who file a joint return, are considering a donation of stock valued at \$25,000 worth of stock that they purchased for \$10,000 four years ago. They are the 22% income tax bracket with taxable income

of \$90,000. Here's is a comparison highlighting the results of itemizing their deduction and using the standard deduction:

If Mary and John itemize deductions

	Sell stock and donate net proceeds	Donate stock directly to NER
Current value	\$25,000	\$25,000
Original purchase price	\$10,000	\$10,00
Capital gains tax paid on \$15,000 gain	\$2,250	\$0
Net contribution	\$22,750	\$25,000
Income tax saving (22% × net contribution to charity)	\$5,005	\$5,500
Net tax benefit (income tax savings – capital gains tax paid)	\$2,755	\$5,500

If Mary and John use the standard deduction

	Sell stock and donate net proceeds	Donate stock directly to NER
Current value	\$25,000	\$25,000
Original purchase price	\$10,000	\$10,00
Capital gains tax paid on \$15,000 gain	\$2,250	\$0
Net contribution	\$22,750	\$25,000
Tax benefit of avoiding capital gains tax paid	(\$2,250)	\$2,250

Capital Gains and Net Investment Income Taxes

Although the primary motivation is the desire to help individuals win their battles with addiction, tax-savvy donors can lower their cost of making a gift to NER by avoiding the capital gains tax and NIIT on the security.

Capital gains tax

Capital gains tax is separate from income taxes, even though it is reported on your income tax return. Should you sell an appreciated security, the amount of the appreciation or gain is subject to the capital gains tax. The capital gains tax rate depends on your taxable income for the year in which the security was donated. The capital gains tax rates for the year 2020 are:

Tax Rate	Single	Married Filing Jointly
0%	\$0 to \$40,000	\$0 to \$80,000
15%	\$40,001 to \$441,450	\$80,001 to \$496,600
20%	\$441,451 or more	\$496,601 or more

Net Investment Income Tax

Besides capital gain taxes, some high-income individuals may also face paying additional taxes on the capital gains because of the Net Investment Income Tax provisions. The provisions of the NIIT are complex, so you should consult with your tax, financial or legal advisor.

In general, investment income includes, but is not limited to: interest, dividends, capital gains, rental and royalty income, non-qualified annuities, income from businesses involved in trading of financial instruments or commodities and businesses that are passive activities to the taxpayer (within the meaning of section 469). The NIIT applies at a rate of 3.8% to certain net investment income of individuals who have income above the statutory threshold amounts.

Itemized Deductions vs. Standard Deduction

Basically, you have two main choices when it comes to tax deductions. You can choose to itemize your deductions, which means that you would add up the dollar value of each tax deduction you're entitled to. Alternatively, you could go the simpler route and claim the standard deduction, which is the amount of income every taxpayer is entitled to exclude from their taxable income.

Federal income taxation was significantly altered beginning in the year 2018. One of the dramatic changes was an approximate doubling of the standard deduction amount for individuals. As a result, the percentage of taxpayers who itemized their deductions dropped from approximately 31% in 2017 to 14% in 2018, according to the Tax Foundation, an independent tax policy organization.

The standard deduction amount for the year 2020 for a single taxpayer is \$12,400, and for married individuals filing jointly, it is \$24,800.

Steps

1. Review your portfolio and identify the appreciated securities that you have owned for more than one year.
2. Consult your tax, financial or legal advisor to help you determine if making a gift of appreciated securities is appropriate for your situation.
3. Contact the Executive Director, Alan Muia, at (360) 848-9281, and he will provide you with the information that your investment broker will need to electronically transfer your security directly into an NER account. If you own the security in certificate form, Alan can provide you instructions on transferring ownership by mail or in person.

Useful Information

You should consider consulting your tax, financial or legal advisor to determine if this is appropriate for your situation. The information that may be helpful to you, your stock broker and your tax advisors when donating securities to NER appears on the following page.

Name:	New Earth Recovery, a nonprofit corporation duly organized and existing under the laws of the State of Washington
Address:	Post Office Box 1473 Mount Vernon, WA 98273
Federal tax identification number:	47-3266440
Income tax status:	Exempt from Federal income taxes under section 501 (c) (3) of the Internal Revenue Code ("Code") *
Contributions to NER:	Deductible under section 170 of the Code *
Bequests, devises, transfers or gifts:	Deductible under sections 2055, 2106 or 2522 of the Code *
* A copy of the IRS Letter of Determination for NER will be furnished upon request.	

Thank you for considering a donation of securities to New Earth Recovery. Please contact the Executive Director, Alan Muia, at (360) 848-9281, if you have any questions.