Highs and Lows: Reminding Clients About Stock Gifts

As an attorney, CPA, or financial advisor, you're well aware that your clients are typically better off from a tax perspective if they donate to charity by giving appreciated stock held for more than one year instead of writing a check. That's because the client's charitable deduction is calculated based on the stock's fair market value, and the charity (unlike your client) can sell the stock without triggering capital gains tax. Indeed, many of your clients regularly give appreciated stock to their donor-advised funds at the community foundation.

"Giving stock to our donor advised fund at the Chester County Community Foundation stripped away the tax penalties and multiplied our local impact. It is by far the smartest way to support the community we love," said John and Karen Karwoski, CCCF fund advisors.

So what happens when one of these clients starts asking questions about what's on their tax return? For instance:

"Wait a minute. I distinctly remember that my stock was worth $81.95 per share when the market closed on the day I transferred 100 shares to the Community Foundation to add to my donor-advised fund. But my tax return is showing a deduction amount less than $8,195. Is that a mistake?"

It's a great question, and of course you know the answer! When a client contributes publicly traded securities to a fund at the Chester County Community Foundation, or directly to another public charity, the amount of the charitable deduction is indeed based on the fair market value of the asset at the time of the gift under Internal Revenue Code Section 170 and Treasury Regulation § 1.170A-1(c). For publicly traded securities, however, "fair market value" is not ordinarily the closing price. Instead, the IRS valuation rule generally uses the average between the highest and lowest quoted selling prices on the date of the contribution. This methodology appears in Treasury Regulation § 20.2031-2(b)(1), outlining the IRS's longstanding valuation rules.

Here's a simple example.

Suppose a client transfers shares to a donor-advised fund at the community foundation on August 20. On that date:

- High price: $82.40
- Low price: $79.60
- Closing price: $81.95

Many clients understandably assume their deduction will be based on the $81.95 closing price. Under the applicable valuation rules, however, the value generally used is the average of the high and low prices:

($82.40 + $79.60) ÷ 2 = $81.00 per share

The difference may be relatively small in many cases, but for larger gifts, or during periods of market volatility, it can become meaningful.

And again, yes, you know this! But many clients do not. That's why it's a good idea to remind a client about this rule when they're making gifts of appreciated stock. It is also important to remember that determining the valuation date itself may involve additional analysis. The relevant date is generally the date the gift is considered complete for federal tax purposes, which may differ depending on how the securities are transferred and when control passes to the charitable organization. Because of these nuances, it's wise to coordinate closely with the Community Foundation whenever timing is critical, such as at year end.

Fortunately, the Community Foundation works with gifts of appreciated securities every day and can help facilitate smooth transfers. Especially as the fall planning season approaches, clients often focus on maximizing charitable deductions while avoiding capital gains tax on appreciated investments. Being prepared to explain why the deduction is based on the average of the day's high and low, not simply the closing price, can be a helpful component of client conversations.

Please reach out to the Chester County Community Foundation team anytime, and especially when a client is getting ready to transfer stock. We will keep an eye out for it and make sure the processing goes smoothly. Thank you for the opportunity to work with you to serve your clients!

For more information, contact the Chester County Community Foundation:
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