What Happens if Your Client Wants to Give Government Securities to Charity?

Every day, the Chester County Community Foundation works with attorneys, CPAs, and financial advisors to help clients support the charities and causes they care about. Often, those conversations involve gifts of appreciated noncash assets—and this is great because of the potential tax benefits. Appreciated stock may be the first noncash asset that comes to mind, but a client's portfolio can include many other types of investments that deserve a closer look when charitable giving is part of the plan.

Government securities are a good example. Although clients may think of these investments as a single asset category, "government securities" actually encompasses a surprisingly broad range of holdings, including Treasury bills (T-bills), Treasury notes, Treasury bonds, Treasury Inflation-Protected Securities (TIPS), Series EE and Series I savings bonds, and securities issued by federal agencies and government-sponsored enterprises.

Why does that matter for charitable planning? It matters because not all government securities are created equal where charitable giving is concerned. Here are a few points to keep in mind:

- Government securities can differ significantly in how they generate income, whether they are marketable or transferable, how they are valued, and how their interest or appreciation is taxed. As a result, a charitable strategy that works for one type of government security may not work for another. And even when a government security can be transferred directly to charity, the tax results may be quite different from those associated with the more familiar gift of appreciated stock.

- This dynamic is especially striking when comparing marketable Treasury securities, which may be transferable to charity, with savings bonds, which present very different transfer and income tax issues and may be more interesting in estate planning than as lifetime charitable gifts.

- Marketable Treasury securities may be used for charitable giving, but advisors will want to look carefully at the particular security before recommending a strategy. Transfer and charitable acceptance considerations come into play, as do valuation and tax considerations. The security's holding period, basis, fair market value, and the character of its return can all be relevant because Treasury securities may generate interest or original issue discount rather than the long-term capital appreciation that makes gifts of highly appreciated stock such a familiar charitable planning technique.

- Savings bonds present an even more distinctive situation. Unlike appreciated stock, savings bonds generally are not well suited to a straightforward lifetime charitable gift because transferring the bonds may trigger recognition of previously deferred interest.. Series EE and Series I savings bonds accumulate interest that is subject to federal income tax, and many owners defer reporting that interest until the bonds are redeemed or mature. If a client simply cashes in savings bonds during life and then contributes the proceeds to charity, the client generally recognizes the accumulated interest. In other words, the strategy does not offer the same tax advantage that may be available when a client contributes appreciated publicly traded stock directly to charity.

- This does not mean savings bonds should be ignored in charitable planning. Quite the opposite: They may be especially interesting in the *overall context* of a client's estate plan. This is because accumulated interest on savings bonds can constitute income in respect of a decedent, or IRD. That means leaving savings bonds to individual beneficiaries can carry an income tax consequence in addition to transferring the underlying asset. That IRD characteristic can make savings bonds worth considering in charitable estate planning because a qualified charitable organization generally is not subject to federal income tax on income it receives in furtherance of its exempt purposes. For a client who has held savings bonds for many years, this creates a good reason to identify those assets during the estate planning process and consider whether they may be better suited for charitable purposes than other assets the client intends to leave to family members.

The larger lesson is one advisors encounter frequently in charitable planning: The asset matters! Two investments that look similar on a client's balance sheet can produce very different tax and charitable planning results.

For all of these reasons and more, the Community Foundation team welcomes a call early in the process. If your client owns Treasury securities, savings bonds, or other noncash assets and has charitable intentions, please reach out before the client takes action. We are happy to work alongside you to explore whether the asset can be accepted, how a potential gift might be structured, and how the Chester County Community Foundation can help your client achieve charitable goals while you and the client's other advisors address the legal, tax, and financial considerations.

Thank you for the opportunity to help you serve your clients!

For more information, contact the Chester County Community Foundation:
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