TAX-EFFICIENT GIFTING

Some methods for reducing concentrated equity risk can also help you leave a long-standing, meaningful legacy. Consider these ways to achieve philanthropic or generational transfer goals while reducing your tax obligation.

CHARITABLE REMAINDER TRUSTS

A charitable remainder trust ("CRT") allows for the donation of an asset – in this case, a portion of your concentrated stock position – to a donor-controlled trust. The trustee can then sell the stock and reinvest the proceeds in a diversified portfolio, and you will continue to receive a stream of income for the duration of your lifetime or a set number of years. When this period expires, the remaining assets in the trust become the property of the selected charity.

Because this charitable trust is itself a tax-exempt entity, donating shares to a CRT enables you to avoid capital gains taxes on the sale of the shares you gift. Plus, the transaction may result in a charitable income and estate tax deduction.

POOLED INCOME FUNDS/ CHARITABLE GIFT ANNUITIES

These programs provide the benefits of establishing a CRT without the upfront cost, ongoing management responsibilities or owner control. You deposit the stock into a charitable fund, receive an income tax deduction and receive a fixed or variable stream of income over your lifetime. The principal is left to the qualifying charity of your choice.

GIFTING TO FAMILY MEMBERS

Another way to manage a concentrated personal investment in a single security is to give some of the stock to family members or trusts. The annual gift exclusion rule allows you to gift up to a predefined maximum value per beneficiary – free of any gift or generation-skipping transfer taxes. This value can change over time, so it's important to review current gifting limits with your financial and tax advisors.

Furthermore, the lifetime transfer tax exemption allows for even larger gifts to be made. While the cost basis in the stock carries over to the beneficiary, he or she also receives all existing and future income and appreciation. The person gifting the securities, on the other hand, reduces his or her future income and reduces the size of their estate.

Always consult with your tax advisor before making decisions.