

As part of its standard services, Aperio will conduct charitable donation analyses to help its clients maximize the tax benefits from donating securities.

TAX BENEFITS OF CHARITABLE DONATIONS/GIFTING

The IRS offers tax benefits for donating securities with unrealized gains (conditions apply). The full market value of donated long-term* holdings can be itemized as deductions on Schedule A. The IRS waives taxes on all capital gains subject to income requirements.** ***Donating the most appreciated securities may create the greatest reduction in future tax liability.***

DONATION STRATEGIES: TWO MAIN APPROACHES

When Aperio clients donate appreciated securities, they primarily use one of these approaches:

- (1) Donate from portfolio and replenish with cash
- (2) Donate from portfolio and do not replenish with cash

EXAMPLE: Donate & Replenish with Cash

A client has \$30,000 of cash outside her portfolio and wants to make a \$30,000 donation. Instead of donating \$30,000 in cash, she donates \$30,000 of the most appreciated securities in her portfolio (identified by Aperio), and then she replenishes the portfolio with the \$30,000 of cash. Aperio invests this fresh cash to achieve the same or better tracking error—and to generate better tax-loss harvesting going forward with the fresh cash starting the loss-harvesting engine.

To identify the most appreciated stocks in her portfolio, Aperio sorts all of the tax lots in the portfolio by percentage appreciation as shown in the table below. After checking for ways to improve tracking error with similar unrealized gains, Aperio recommends specific tax lots.

Ticker	Purchase Date	Shares	Cost Basis	Current Value	Unrealized Gain	Percentage Gain
EA	2012-11-19	73	\$995	\$5,407	\$4,412	443%
PANW	2013-11-05	46	\$1,915	\$7,544	\$5,629	294%
KR	2012-11-19	214	\$2,629	\$8,196	\$5,568	212%
CELG	2012-11-19	26	\$974	\$3,031	\$2,057	211%
CELG	2012-09-18	50	\$1,920	\$5,828	\$3,908	204%
Sum			\$8,433	\$30,007	\$21,574	

Donating and replenishing with cash is the most tax-efficient donation strategy that does not adversely impact portfolio characteristics. Moreover, donating and replenishing with cash can add more loss-harvesting life to an otherwise ossified (highly appreciated) portfolio.

*For short-term holdings, only the value of the cost basis is deductible.

**Limited by the IRS to 30% of Adjusted Gross Income (AGI) for public charities and 20% of AGI for certain private charities.

EXAMPLE: Donate & Do Not Replenish with Cash

A client wants to make a \$100,000 donation (without cash replenishment) from his Aperio portfolio, which has a tracking error of 0.77%. The client seeks to donate highly appreciated securities without meaningfully increasing his tracking error. The client is fine with less-than-maximum unrealized gains and does not want to take a pro-rata approach across 293 stocks.

Aperio analyzes the client’s portfolio and determines that maximizing the unrealized gains would significantly increase the tracking error. Aperio finds a solution where unrealized gains are still large while the tracking error increase is small.

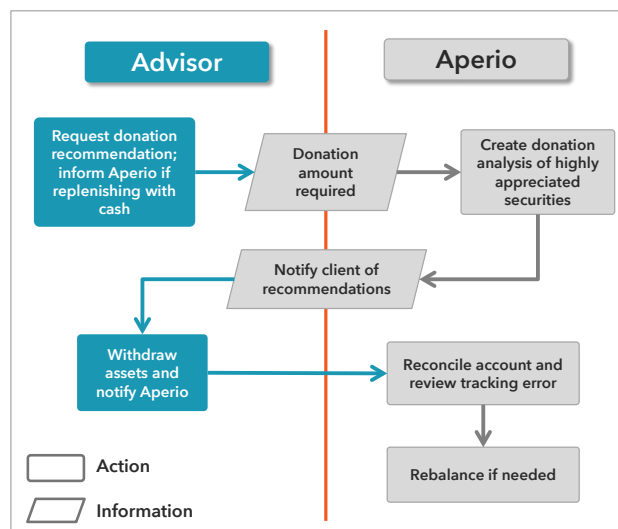
	Maximum Unrealized Gains	Optimized Solution	Pro-Rata Approach
Target Donation	\$100,000	\$100,000	\$100,000
Unrealized Gains	\$70,913	\$67,548	\$43,114
Tracking Error (Aperio)	1.04%	0.79%	0.77%

Donating and not replenishing with cash may require trade-offs between the amount of unrealized gains and tracking error.

OUR PROCESS

Aperio will work with your team through a process that maximizes the tax benefits while maintaining the portfolio’s characteristics (e.g., tracking error).

Usually, Aperio can complete the analysis within 48 hours.



Related resource: [Case Study – Charitable Donations](#)

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