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Tax Alert



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Warren Buffett \$2.8 Billion Donation Gets Supersized -- By Taxpayers

Uber-billionaire [Warren Buffett](#) has just donated more than *\$2.8 billion* to charity. How one arrives at this figure involves some math, and also tax considerations. He made the donation by transferring 20.64 million [Berkshire Hathaway](#) Class B shares. The announcement was made [on the company's website](#). Each year in the last few have been stratospheric, including another \$2.8 billion [in 2014](#), and \$2.6 billion [in 2013](#).

As in the past, the major recipients are the Bill and [Melinda Gates](#) Foundation, plus foundations set up by Buffett family members, including the Susan Thompson Buffett, Sherwood, Howard G. Buffett and NoVo Foundations. Mr. Buffett has pledged to give away 99% of his wealth, and his lifetime giving now tops \$25.5 billion. He and Bill Gates created the [Giving Pledge](#) to encourage the world's wealthiest people to donate a substantial portion of their fortunes to charity.



When Mr. Buffett makes these outsized gifts, he does not make them in cash. The famously savvy CEO of [Berkshire Hathaway](#) does it in stock. Why donate stock rather than cash? When someone donates stock, the donor gets a charitable contribution deduction based on the *fair market value* of what is given. Value and basis are different things, which can mean enormous tax advantages.

By donating at the market value of the shares, Mr. Buffett gets credit for the appreciation in the shares. That is, the fair market value of the stock is his donation. Yet he does not have to pay income tax on his gain as he would if he sold it. Plainly, donating appreciated stock is far better than selling the stock, paying tax on the gain, and donating the cash. Giving appreciated property is the kind of wise tax planning you would expect from Mr. Buffett.

Mr. Buffett is not alone. [Facebook](#) CEO [Mark Zuckerberg](#) has done the same thing. Mr. Zuckerberg donated \$500 million of his Facebook stock to the Silicon Valley Community Foundation. Zuckerberg made his donation in the form of 18 million shares, translating to a \$500 million tax deduction. The Facebook IPO price was \$38 a share. The price dipped below \$20 but then rose by more than 25% by the time of Mr. Zuckerberg's December 2012 donation.

Donating appreciated stock is a smart tax move. By donating the stock, the donor avoids paying tax on the gain. The donee organization can hold or sell the stock. But since it is a tax-qualified charity, if it sells the stock it pays no tax regardless of how big the gain.

Big donations yield big tax benefits, but pay attention to the details. Donations go on [Schedule A](#) to Form 1040, so you must itemize. You can only take a deduction for up to 50% of your adjusted gross income for most charitable contributions (30% in some cases).

Observe other basic rules too. If your donations entitle you to merchandise, goods or services, you can only deduct the amount *exceeding* the fair market value of the benefits you received. If you pay \$500 for a charity dinner ticket but receive a dinner worth \$100, you can deduct \$400, not the full \$500.

Of course, make sure the donee organization is qualified. You cannot deduct contributions to individuals, political organizations or candidates. The IRS maintains a list of all charities. To check whether particular organizations are on the IRS list, click [here](#).

Mr. Buffett may have said that he thinks his own tax rate should be higher. But he has also proven to be careful to plan transactions efficiently so he pays less. Like a long term investment that pays off, perhaps there's something satisfying in arranging a deal that is tax-efficient and that benefits charity. It's unlikely that any of us will make it to [Warren Buffett](#)'s level. Still, properly planned charitable contributions can be tax efficient and do good works too.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.