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Warren Buffett Gives $3.6 Billion To Charity, How To Supersize Your Donations Too

The news that Warren Buffett is donating a whopping $3.6 Billion of his Berkshire Hathaway stock to charity means he has surpassed the $3.4 billion gift he gave last year. Buffett is the world's fourth richest man, with an $88.6 billion net worth thanks to his success with Berkshire Hathaway. His $3.4 billion and now $3.6 billion pledges fulfill part of his promise to donate over 99% of his fortune to charity. So far, he has given roughly 45% of his stock to five foundations as part of the Giving Pledge he made in 2006. Big recipients are the Bill and Melinda Gates' Foundation, the Susan Thompson Buffett Foundation, the Sherwood Foundation, the Howard G. Buffett Foundation and the NoVo Foundation. The Bill and Melinda Gates Foundation is the world's largest private charitable foundation, having given over $50 billion in grants. As for the mechanics of Buffett's gifts, he is converting 11,250 of Class A Berkshire shares into 16,875,000 of Class B shares, worth roughly $3.6 billion.

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, of course. Why donate stock rather than cash? When someone donates stock, the donor gets a charitable contribution deduction based on the *fair market value* of the stock. Value and basis are different things, which can mean enormous tax advantages. By donating the shares at their market value, Mr. Buffett gets credit for the appreciation in the shares. The fair market value of the stock is his donation, but he does not have to pay income tax on his gain as if he sold it. Thus, 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, as have many other wealthy individuals. 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. 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. Another basic rule is to 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 has famously said that he believes his own income tax rate should be higher than it is. However, he has also proven to be careful and tax-savvy investor, planning transactions efficiently so that he pays as little as possible. 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, but even on a smaller scale, properly planned charitable contributions can be tax efficient, and do good works too.

This is not legal advice. For tax alerts or tax advice, email me at Wood@WoodLLP.com.