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Warren Buffett's Supersized Tax Deduction

Warren Buffett is one of the world's richest and most benevolent men. The uber-billionaire has now donated approximately \$2.6 billion to the Bill and Melinda Gates Foundation and four other charities. See [Buffett Donates \\$2.6B In Berkshire Hathaway Shares](#). He did it with stock, of course. He handed over stock in his company, [Berkshire Hathaway](#), donating 22,870,529 shares of his class B common stock. At the time of the donation, they were trading at about \$115 per share.

According to his [filing](#) with the SEC, Buffett converted 14,000 class A shares to 21 million class B shares July 5 to complete the donation. Despite the gift, he is still worth over \$59 billion. That is up from \$53.5 billion in March, due to appreciating Berkshire Hathaway stock.

The bulk, 17,458,431 shares or about \$2 billion, went to the [Gates Foundation](#). The balance was split between the Susan Thompson Buffett Foundation, named for his late wife; and his children's charities, the Howard G. Buffett Foundation, the Sherwood Foundation and the NoVo Foundation.



Warren Buffett speaking to a group of students from the Kansas University School of Business (Photo credit: Wikipedia)

Famously, Buffett pledged to give away 99% of his fortune. In 2012, he gave \$1.5 billion to the Gates Foundation. In the same year he pledged \$3 billion of stock to his children's foundations. According to Forbes, Buffett has donated at least \$11.5 billion in Berkshire Hathaway shares to the Bill & Melinda Gates Foundation.

When someone donates stock, what is the tax effect? The donor gets a charitable contribution deduction based on the fair market value of what is given. Value and basis are different things and that means a big tax advantage.

Mr. Buffett donates at the market value of the shares but doesn't have to pay income tax on his gain. That makes it 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.

Facebook's CEO [Mark Zuckerberg](#) did the same thing in December of 2012. 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 much better tax move than selling it and donating the sales proceeds. By donating the stock, the gain the donor would experience on selling it is never taxed. 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.

Like Mr. Buffett and [Bill Gates](#), Mr. Zuckerberg [wrote](#) that he and his wife Priscilla have signed the Giving Pledge, committing to give away at least half of one's fortune during his or her lifetime. Big donations yield big tax benefits.

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). 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.

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](#). 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.

You can reach 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.