P&G

UTILIZING P&G PREFERRED SHARES IN RETIREMENT FOR CHARITABLE GIVING

One issue many Procter & Gamble retirees run into is devising a strategy to continue gifting charitably after income from employment ceases. Oftentimes, gifting during working years simply comes from extra cash, but in retirement, cash is needed for living expenses. If you, like many P&G'ers, take advantage of the net unrealized appreciation opportunity for the preferred shares in the profit-sharing trust (PST) at retirement, there is a gifting strategy that may make more sense than gifting cash in retirement. Simply gifting the preferred shares has many potential benefits.

Most 501(c)(3) charitable organizations will accept stock in lieu of a cash gift. In addition, there are quite a few potential benefits to donating stock. Consider this scenario in which one retiree is gifting cash and the other is gifting stock:

Donor 1: In order to gift cash, Donor 1 needs to sell his/her preferred shares. This could result in a long-term capital gains tax, which can range as high as 23.8 percent at the federal level. The result? The charitable organization receives less than what the stock was worth, or the donor sells more preferred shares to accumulate the desired gift amount.

Donor 2: In this scenario, Donor 2 gifts the preferred shares directly to the charitable organization. The result? The long-term capital gains tax is avoided, and a donor is able to give the charity the desired gift amount without selling more stock.

If you're unsure of the organization you want to support charitably or want to make significant charitable gifts over a period of time, consider using a donor advised fund (DAF). With a DAF, you make a larger charitable donation in one year, allowing you to have a larger impact on your tax return, but then spread the gifting of the donation out over several years.

In addition, you can pass along any un-gifted assets in a DAF to a beneficiary, and he or she can gift the assets out over his or her lifetime.

Lumping several years' worth of charitable deductions into one year rose to prominence with the passing of the Tax Cuts and Jobs Act of 2017. The new tax law capped the amount of state and local taxes that were deductible to $10,000. Consider a retiree who no longer carries a mortgage (thus, cannot deduct mortgage interest), his or her annual charitable gifts would need to be more than $14,400 to receive a tax deduction for any dollars gifted.

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This is where a DAF enters the conversation. Consider the scenario below, in which a P&G retiree decides to gift five times their annual charitable amount ($10,000) in one tax year:

	2019 Deductions Without A DAF	2019 Deductions With A DAF
State & Local Taxes	$10,000	$10,000
Mortgage Interest	$0	$0
Charitable Gifting	$10,000	$50,000*
Deduction Used	Standard: $24,400**	Itemized: $60,000
Potential Tax Savings From Charitable (Dependent on Marginal Bracket)	$0	$8,000 - $12,000

Source: irs.gov

**When gifting long-term appreciated assets (such as preferred shares post-NUA distribution), the charitable deduction is capped at 30 percent of adjusted gross income.*

***Federal deduction for married filing jointly*

This use of the DAF has three main advantages:

1. The lumping of charitable contributions causes you to breach the standard deduction, resulting in a large tax benefit.
2. Gifting appreciated assets allows you to access the value of the stock that has large, embedded gains without personally realizing them.
3. Lastly, this can be a tool used to hasten your diversification from P&G in a tax-free manner.

Once within the DAF, the P&G preferred shares (or any other appreciated asset) can be sold and reinvested with no taxes incurred. Any market growth can be gifted at any time during the life of the DAF.

If you have any questions on how the use of a DAF and gifting of P&G preferred shares may play into your retirement plans, please contact your team at Mariner Wealth Advisors, or Nate Kunkel and Brad Morgan directly.