

Innovative Philanthropy: The Charitable Swap

Philanthropy continues to evolve, offering donors creative ways to align their resources with personal values and maximize impact. Among these innovative strategies is the charitable swap, a tax-efficient approach that transforms appreciated stocks into powerful tools for good.

Unlike traditional cash donations, a charitable swap involves donating appreciated stocks to a charitable organization or donor-advised fund. This method allows donors to support causes they care about while receiving significant tax advantages. For individuals looking to integrate their faith and values into giving, the charitable swap offers a unique opportunity to make a meaningful impact while maintaining their investment portfolios.

At its core, a charitable swap allows donors to avoid capital gains taxes on the appreciation of their stock holdings. When stocks are sold directly, the increase in value—known as capital gains—is subject to taxation. By donating appreciated stocks instead, donors not only bypass this tax but also qualify for a tax deduction based on the full fair market value of the donation. This ensures more of the asset's value goes directly to charitable purposes, maximizing its impact.

The charitable swap is a straightforward yet strategic process. A donor identifies stocks in their portfolio that have appreciated significantly in value. Instead of selling these stocks and incurring capital gains taxes, they donate them directly to a charity or a donor-advised fund. The donor then uses cash—often the same amount they would have donated outright—to repurchase the same stocks in the open market. This repurchase resets the cost basis of the stock to its current market value, effectively reducing future taxable gains while keeping the portfolio intact.

For example, consider an investor with \$50,000 worth of stock that was originally purchased for \$20,000. If sold, the \$30,000 gain would be subject to capital gains taxes. Instead, by donating the stock to a charity, the donor avoids these taxes entirely and receives a tax deduction for the full \$50,000 value. Using \$50,000 in cash to repurchase the same stock allows the investor to maintain their portfolio while establishing a new, higher cost basis.

The financial benefits of a charitable swap are clear, but this strategy also aligns closely with faith-based principles for Catholic donors. By ensuring that more resources are directed toward charitable causes, donors embody values of generosity and stewardship. It is important, however, to ensure that the recipient organization operates in alignment with Catholic teachings and uses the donation responsibly and transparently.

Proper planning is essential to executing a charitable swap effectively. Consulting with financial advisors or tax professionals ensures that the transaction meets legal requirements and maximizes the donor's financial and philanthropic goals. Donor-advised funds are often an ideal

vehicle for charitable swaps, offering flexibility in managing donations and directing them to specific causes over time.

This approach is particularly appealing for donors who wish to make a significant impact without disrupting their investment strategies. By converting appreciated stocks into actionable support for causes such as scholarships, Catholic missions or other faith-aligned initiatives, donors can amplify the reach of their generosity while benefiting from tax efficiencies.

A charitable swap is more than a financial maneuver—it's a way to innovate for the greater good. It allows donors to reimagine how they use their resources, transforming untapped potential into meaningful change. For those integrating faith into their financial decisions, this strategy offers a compelling path to align values with action.

As Proverbs 19:17 reminds us, "Whoever cares for the poor lends to the Lord, who will pay back the sum in full." A charitable swap not only fulfills the desire to give but also creates a legacy of thoughtful, impactful generosity. With careful planning, you can unlock both financial and spiritual rewards, leaving a lasting mark on the causes and communities that matter most.

To begin, evaluate your stock portfolio and philanthropic goals, and consult with trusted advisors, including those at The Orange Catholic Foundation, to explore how this strategy could work for you. Our team of Catholic advisors can be reached at 714.282.3021 or info@OrangeCatholicFoundation.org.

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