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Donating mutual funds shares to charity

More than \$12 trillion is now invested in US mutual funds, nearly double the amount ten years ago. More and more individuals have appreciated assets in mutual funds, both personally and in retirement accounts. Mutual fund shares are increasingly the source of charitable gifts. Contributing mutual fund shares can be more complicated than the typical donation of individual securities.

Charitable gifts of mutual funds create the same tax benefits as gifts of individual securities. Mutual funds should be distinguished from Exchanged Traded Funds or ETFs. An ETF is an investment fund traded on a stock exchange, much like stocks. An ETF holds stocks, bonds, commodities and trades close to its net asset value during the day. ETFs can be easily transferred to charity using a DTC or Depository Trust Company transfer into the charity account as these securities are traded on exchanges.

Mutual funds are generally structured as open-end investment companies. As an investment company they are not subject to tax on their holding or the income and capital gains they distribute to shareholders in the form of dividends and gains. The individual shareholders pay tax on these distributions. These distributions increase the cost basis in the mutual fund shares.

Mutual funds are normally bought and sold through the issuer. When shares are contributed to charity the shares are valued at the BID price of the shares, not the ASK price or the average value between the BID and ASK price. The resulting value is the current fair market value and determines the income tax charitable deduction. No appraisal is required as quotations of value are readily obtained from the company, published online and in newspapers.

In order to receive the maximum deduction allowed by law the mutual fund share must be transferred to the charity and not redeemed and the cash transferred. If the shares are sold the donor will be responsible for any potential tax on the sale of the shares.

Procedure for mutual fund share donations

The slowest, and generally least desirable method of giving stock and mutual funds to charity, is to deliver the shares to the issuing corporation which then transfers ownership on its books. The gift is not complete until the issuer records the transfer.

Mutual funds are generally transferred through a change of ownership on the issuer's books. They cannot be transferred through the DTC system unless they are held in an investment account at the donor's broker. A shareholder normally does not hold a certificate of ownership.

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First, the donor should contact an account representative at the mutual fund company to ask about their process for charitable donations. Some companies have forms to be completed and/or a letter of authorization to transfer the share is required. Often companies require a medallion signature guarantee. A medallion signature guarantee is a special guarantee for the transfer of securities issued by some but not all banks, trust companies and investment firms. It is a guarantee by the transferring financial institution that the signature is genuine and the financial institution accepts liability for any forgery. A signature guarantee is different from a notarized signature.

Second, the donor should notify the charity of their interest in making a mutual fund gift, identify the mutual fund, the number of shares, and the contact information for the fund. At this time it is important to determine if the shares may be transferred to a gift account at your broker or to an existing account previously set up at the mutual fund.

Third, if there is no existing account at the mutual fund the charity must establish an account. This requires an application for an account and may require a corporate resolution indicating the person authorized to sell and/or purchase shares. It will include the charity tax identification number.

Fourth, once the charity account is established for the purpose of accepting the gift, then the donor must instruct the fund company to transfer the shares to the account.

Fifth, once the shares are in the account, the gift date is established and the charity can redeem the shares. This may be done by phone, online or the fund may require written authorization. It is important the charity obtain the donor's social security number and the account number assigned to the mutual fund as this may be required to confirm the transfer has been made.

This procedure may take two to four weeks to accomplish so donors should be encouraged to act early if they wish to have the gift completed by year end.

Do you have a story of a mutual fund transfer? Please share it by using this [link](#).