RESEARCH MEMO

Giving From a Concentrated Position

Which asset funds the gift, and why the answer matters to clients who are not thinking about charity at all

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Framework memo. Illustrative throughout; no client facts are described. Trust and foundation treatment described here is general and is a legal determination. Nothing is tax or legal advice. Lot selection within a gifting program is developed in a companion memo.

1 · SUMMARY OF CONCLUSIONS

Charitable disposition is usually filed under a question about the client rather than a question about the portfolio. Are they charitable, and if so, how much. That framing is natural and it causes the tool to be skipped entirely for the large number of clients who give something every year without thinking of themselves as philanthropic.

The more useful question is narrower. Giving is going to happen or it is not, and the amount is set by intent rather than by tax. What remains open is which asset funds it, and that question belongs to whoever manages the portfolio.

> A client with a concentrated position who gives anything at all should be funding that giving from the position. Every dollar given that way removes a dollar of concentration at no incremental cost relative to the gift they were already making. The giving is not a diversification strategy, but the diversification it produces is free.

Findings

1 · Giving is never cheaper than selling, and should not be presented as though it were. A dollar sold leaves most of a dollar to redeploy. A dollar given leaves a deduction worth the marginal rate and no asset. Where a client is told that giving is an efficient way to reduce concentration, they have been told something false. The efficiency is in the funding choice, not in the decision to give. (§2)

2 · The vehicle question reduces to two inputs. Does the client need income from the position, and do they want to choose recipients now or later. Outright gift, donor advised fund, and charitable remainder trust answer those differently, and most other points of comparison are secondary. (§4)

3 · A charitable remainder trust is the only one of these that converts the position into an income stream. That is its reason for existing, and it is why it appears in conversations where the client's actual problem is cash flow rather than philanthropy. It is also irrevocable, administratively heavy, and leaves the client inside an established structure they cannot exit. (§4.3)

4 · Charitable disposition and hold-to-death compete for the same shares. Both want the lowest-basis lots, for the same reason. A client running an annual gifting program funded from a position they also intend to leave to heirs is steadily giving away the shares the estate plan depends on. Where both dispositions apply, the split should be set deliberately rather than resolved by whichever program transacts first. (§5)

5 · Sizing is a coordination problem, not a charitable one. How much giving is genuinely planned, how much complement the client's other capital can build, and whether those two together reduce the position far enough over the available period. The gift is sized to intent; the position reduction it produces is then counted against what remains to be solved. (§3)

Three standing rules

1. **Never let the deduction set the gift.** A client who gives more than they intended because the tax treatment looked attractive has spent a dollar to save a fraction of one.
2. **Fund every planned gift from appreciated shares before considering cash.** The gift is identical to the recipient and strictly better for the client, subject to the deduction limits.
3. **Settle the estate question before the gifting program runs.** Both claims are on the same lots and the conflict is invisible until the shares are gone.

What would change these conclusions

- **A client near the deduction ceiling for appreciated property.** The limit on gifts of appreciated securities is lower than the limit on cash, and a client already at it may deduct more in-year by giving cash. The comparison then turns on carryforward timing.
- **A position at high basis.** There is less embedded gain to carry out, the advantage over giving cash narrows, and the concentration is better addressed by selling.
- **Legislative change to the deduction for appreciated property.** The ability to deduct fair market value while never recognizing the gain is what makes this work, and it is a feature of current law rather than a principle.

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2 · WHAT GIVING ACTUALLY COSTS

Worth establishing before anything else, because the category attracts loose claims.

A gift of long-term appreciated securities to a public charity produces two effects. The donor deducts the fair market value, subject to limits, and the embedded gain is never recognized by anyone, because the charity is tax-exempt and sells without tax.

That is genuinely efficient as a way of giving. It is not a way of getting richer. The client ends the transaction with a deduction worth their marginal rate and without the asset. Selling the same shares would have left them the proceeds net of tax, which is a substantially larger number.

> Giving always costs more retained wealth than selling. That is what giving is. The question this memo addresses is not whether to give but, given that a client is giving, which asset should fund it.

The answer to that question is unambiguous. Where a client intends to give, funding the gift with appreciated securities rather than cash produces an identical outcome for the recipient, an identical deduction for the donor, and removes an embedded gain from the portfolio at no cost. The companion gifting memo develops the lot-level mechanics; the point here is that the choice of funding asset is where the value sits.

3 · SIZING AGAINST THE REST OF THE PLAN

This is where the memo departs from the usual treatment, and where it becomes relevant to clients who do not consider themselves philanthropic.

3.1 Start with what the client already gives

Most clients with meaningful wealth give something. An annual contribution to a university, a religious institution, a hospital, a cause attached to a family member. It is frequently handled by cash or a check, it is rarely discussed with whoever manages the portfolio, and it is almost never funded from the taxable account deliberately.

Establishing that figure, and the number of years over which it is likely to continue, is the first step. It is also a conversation most portfolio managers do not initiate, because giving is filed under planning rather than investments.

3.2 Count the position reduction it produces

Once the planned giving is known and funded from the concentrated position, it becomes one of the inputs that reduces the holding, alongside staged sales, new capital, and anything else arriving. It is the only one that costs no tax at all.

So the sizing exercise runs in the other direction from how it is usually framed. Not how much should we give in order to diversify, which is the wrong question and produces the wrong answer. Rather: given what the client is giving anyway, how much of the position does that remove over the relevant period, and what remains for the other tools to handle.

3.3 Where this interacts with outside capital

A client with modest capital outside the position faces a specific version of the problem. The external capital can build some complement but not enough, and the position has to come down as well.

In that situation the giving and the external capital work on the same problem from opposite ends. The gift removes position; the capital builds complement. Together they may be sufficient where neither alone would be, and the planning question is whether the combined effect gets the client where they need to be over the period available, or whether a staged sale has to carry the remainder.

What should not happen is the gift being sized to close that gap. The gift is sized to what the client wants to give. If the arithmetic leaves a shortfall, the shortfall is solved with a tool that does not require giving away capital.

4 · THE VEHICLES

Two questions determine the choice, and most other comparisons are downstream of them. Does the client need income from the position, and do they want to select recipients now or retain flexibility.

4.1 Outright gift to a public charity

The simplest route. Shares are transferred directly to the organization, the donor takes the deduction, the charity sells without tax.

Appropriate where the client knows the recipient and intends to give the full amount now. No ongoing administration, no intermediary, no fee. For a client making a single gift to a single institution, the additional structures below add complexity without adding anything.

4.2 Donor advised fund

Shares are contributed to a sponsoring organization and the deduction is taken in the year of contribution. Grants to operating charities are recommended by the donor over whatever period they choose, and the balance remains invested in the meantime.

The useful property is that it decouples the timing of the deduction from the timing of the gift. A client with a high-income year, a liquidity event, or a particularly appreciated position can contribute when the deduction is most valuable and decide the recipients later.

This decoupling also resolves a problem described in the companion gifting memo: because the contribution need not match the grants, the client can contribute whole lots and round upward, letting the fund balance carry the surplus rather than forcing an awkward partial lot.

4.3 Charitable remainder trust

The client transfers the position into an irrevocable trust, retains an income interest for a term of years or for life, and the remainder passes to charity. The trust is tax-exempt, so it can sell the contributed position without recognizing gain, and reinvest the full proceeds in a diversified portfolio. The donor receives a deduction for the present value of the remainder interest and is taxed on the distributions as they are received.

> This is the only structure in this memo that converts a concentrated position into an income stream, and it is the reason it appears in conversations where the client's real problem is cash flow rather than philanthropy.

The trade is substantial. The transfer is irrevocable. The remainder genuinely goes to charity rather than to heirs, which is a real reduction in what the family receives. The structure carries ongoing trustee, administrative, and tax filing obligations. The deduction is a fraction of the contribution rather than the whole, because the client has retained the income interest. And the distributions carry out the trust's income under ordering rules that mean much of what the client receives early on is taxed at higher rates than they may expect.

A charitable remainder trust is a serious estate planning instrument, not a portfolio technique. It belongs in a conversation with counsel and it is included here mainly so it is not mistaken for a close substitute for the two structures above.

4.4 Private foundation

A client wanting durable control over grant-making, family involvement across generations, and an entity with its own identity may prefer a foundation. The trade-offs relative to a donor advised fund are consistent and worth knowing: the deduction ceiling for gifts of appreciated securities is lower, there is a minimum annual distribution requirement, and the administrative burden is ongoing and real.

For most clients funding a gift from a concentrated position, a donor advised fund achieves the same tax result with materially less friction. Where a foundation is genuinely wanted, it is wanted for reasons of governance rather than efficiency, and that is a legitimate reason. The comparison deserves its own treatment rather than a paragraph.

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5 · THE CONFLICT WITH THE ESTATE PLAN

This is the finding most likely to be missed in practice, because the two programs are usually run by different people.

Charitable disposition wants the lowest-basis shares, because the avoided gain is largest there. Holding to death also wants the lowest-basis shares, because the eliminated gain is largest there. Both strategies are correct in isolation and they are claims on the same lots.

A client running an annual gifting program funded from a concentrated position, while also intending to leave that position to heirs, is systematically giving away the shares the estate plan was built around. Nobody notices, because the gifting program is working exactly as designed and the estate plan is not transacting.

Two things resolve it.

Allocate the position explicitly. Decide what share is destined for charity and what share for heirs, and run each program against its own allocation rather than against the position as a whole. The lots within each allocation can then be selected on their own merits.

Reconsider which assets fund which objective. The conflict only exists because both programs are drawing on the same holding. A client with other assets may find that the charitable giving is better funded from a different appreciated position entirely, leaving the concentrated holding intact for the estate. That is a balance sheet question rather than a position question, and it is answerable once someone asks it.

6 · WHAT THIS DOES NOT SOLVE

Charitable disposition removes shares from the portfolio permanently and at no tax cost. For the portion of the position that goes, the problem is completely resolved.

For the remainder it does nothing. A client giving a modest annual amount from a large position will reduce the holding slowly, and the concentration risk in the meantime is unchanged. Where the position is large relative to the client's giving, this is a supporting tool rather than a solution, and the framework memo on concentrated positions treats what else is available.

It also does not help a client who is not giving. That sounds obvious and it is worth stating, because the structures described here are occasionally presented in a way that implies otherwise. There is no version of charitable disposition that leaves the client wealthier than selling. The case for it rests entirely on the client wanting the money to go somewhere other than to themselves or their heirs.

7 · LIMITATIONS

Deduction limits are not modeled. Gifts of appreciated property are subject to a lower ceiling as a share of adjusted gross income than cash gifts, with a carryforward period. A client making large gifts relative to their income should have that modeled explicitly, since it changes both the timing and the choice of funding asset.

Trust and foundation treatment here is general. The descriptions in §4.3 and §4.4 are summaries of structures whose tax treatment, distribution rules, and administrative requirements are considerably more involved than a paragraph can convey.

Sponsor and recipient acceptance is assumed. Not every organization can accept securities in kind, and restricted or thinly traded positions are frequently declined or require pre-approval and independent valuation. Confirm before building a recommendation around a specific holding.

Valuation and substantiation requirements are not addressed. Gifts above certain thresholds carry appraisal and reporting obligations, and non-compliance can cost the deduction entirely.

Framework memo prepared for illustrative purposes. Not tax or legal advice. Deduction limits, substantiation requirements, trust taxation, and foundation rules depend on individual circumstances and should be confirmed with qualified tax and legal counsel before any transfer is made.

Part of a Series

This memo is one of a set on concentrated positions. The framework that determines which tool applies is in Concentrated Positions.