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Here’s How to Give Graduates Stock as a Gift

Megan Leonhardt @Megan_Leonhardt | May 19, 2016

Russell Kord—Alamy

Having trouble finding that perfect gift?

With millions of high school and college students graduating, it’s worth considering gifting stock as an introduction to investing.

Today’s graduates will work 13 years longer than Baby Boomers, who are retiring at an average age of 62, according to a recent NerdWallet analysis. But a 23-year-old who begins saving 10% of their income today could trim five years off, saving enough to retire at age 70.

To help jump-start their savings, family and friends can gift stock or, in some cases, mutual fund shares to recent graduates. The process can get younger investors excited about the markets and give them an early sense of ownership over their financial health, says Massachusetts-based LPL financial adviser Kashif Ahmed.

“You are giving them the education about investments, with something tangible to go with it,” Ahmed says. “If you have never had the investments, savings ‘talk,’ then this is the time to have it.”

Typically, gifting stock involves a relatively simple transfer from a giver’s brokerage account to the graduate’s account, if one is set up. If not, work with parents to create an account in the graduates’ name and then set up the transfer. Is the graduate under age 18? No problem, children can own stock as long as there’s an adult on the account.

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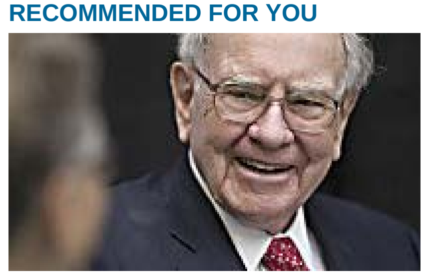

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If you have a physical stock certificate, you’ll need to sign it over in front of a guarantor (usually a bank or broker). Once the stock certificate is signed, it can be transferred.

Charlotte, N.C.-based adviser Kelly Graves recommends gifting stock in a company the child knows and understands. There are actually several websites that specialize in stock gifts of popular brands, including Disney, Nike, Starbucks and Facebook. Sites like SparkGift and Stockpile offer a slightly less expensive stock gift and a tangible gift in the form of a certificate.

SparkGift allows people to buy fractional shares of over 6,000 stocks and index funds for as little as $20. Instead of buying an entire share of Apple, for example, for around $100, family and friends can just choose a stock and pay—no forms or transfers. SparkGift creates a gift certificate and delivers it to the recipient.

Stockpile sells physical gift cards for fractional shares of popular stocks, as well exchange traded funds for the Nasdaq, S&P 500, the Dow, and gold. Stockpile sells its gift cards at a number of grocery and convenience store chains, as well as on its website.

Gifting a stock or mutual fund can be a great way to maximize tax benefits too. If a client is affluent and lives in a state with an income tax, they are likely to face combined long-term capital gains tax rates of more than 30%, while recent college grads generally have a long-term capital gain rate of 0% on most investments until they start a job where they earn over $37,600, says Chad S. Hamilton, a Denver-based advisor with Mariner Wealth Advisers.

"That represents a great opportunity to maximize a gift," he says. For instance, parents gifting cash to a recent graduate may need to liquidate close to $40,000 in very low basis stock to net a $28,000 gift (the maximum gift allowed without requiring you to file with the IRS). Why not just gift $28,000 worth of stock ($14,000 from each parent) to the child who could sell it with little or no tax consequences? Hamilton says highly appreciated investments with a low original value (cost basis) work best.

But keep in mind that the recipient keeps the cost basis of whoever gifted it. So if you are gifting highly appreciated stock (stock with a low cost basis relative to today's price), when the stock is sold, the tax bill could be staggering, says Virginia-based adviser David Mullins.

If the graduate doesn't need the money now, it might make sense to wait and leave the stock as an inheritance. "The beneficiaries will likely save tens of thousands in capital gain taxes," Mullins adds.

There can be other unforeseen consequences as well. Many GenXers and millennials who received stocks as gifts are opposed to selling them, says Virginia-based advisor Hui-chin Chen

"They treat the stocks almost like a family treasure you are not supposed to sell, ever. And the longer it drags on, the higher built in capital gain there is, and the less willing they are to sell to incur more tax," she says.