



Why It Might Make Sense to Donate Your Best Investments Instead of Cash

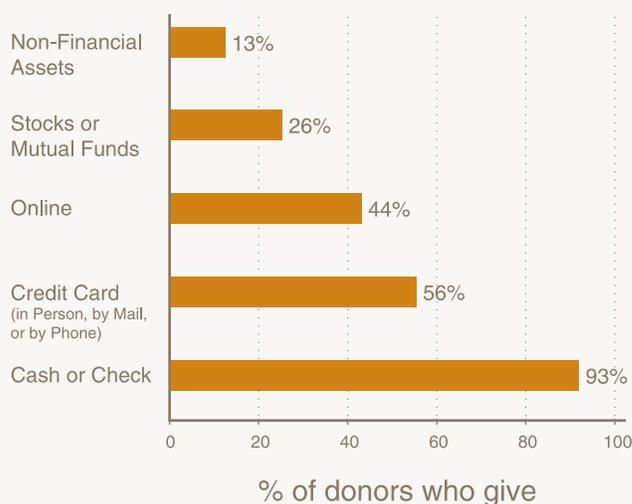
Appreciated Assets Can Be Among the Most Tax-Advantaged Items to Contribute to Charity

by Barbara Benware, Vice President of Investment Oversight

What might Apple stock, a piece of real estate, shares in a privately held company, interests in private equity, venture or hedge funds, and fine art or collectibles have in common? Whether you purchased them for love or investment purposes, they could be among the best items to give to your favorite charities to realize maximum tax benefits.

Before you sell them, it's vital to understand how appreciated investments can be an important part of a philanthropic wealth management strategy. Assets that have appreciated in value can be among the most tax-advantaged items to contribute to charity because you can enjoy a current year tax deduction and avoid payment of capital gains taxes on their sale. This allows you to pay lower taxes and also allows the charities you support to receive the most money possible.

DONORS ARE UNDERUTILIZING APPRECIATED ASSETS



Source: The 2012 Bank of America Study of High Net Worth Philanthropy.

Yet most Americans are not aware of the benefits of contributing these types of assets. Only 26% of high net worth households give appreciated investments to charity, while 93 percent make donations using cash or checks.¹

Unfortunately, not all charities have the resources or capabilities to accept gifts of appreciated investments directly. That's where donor advised fund accounts can come in handy. These charitable accounts, offered by many financial institutions and community foundations, allow you to more easily convert appreciated investments into tax-effective charitable contributions. This is because the sponsoring charity may have more experience with these types of gifts and can be in a better position to evaluate prospective contributions of appreciated property and liquidate the property once it is donated. Simply

¹ The 2012 Bank of America Study of High Net Worth Philanthropy: Issues driving charitable activities among wealthy households, Bank of America and The Center on Philanthropy at Indiana University, November 2012.

transfer the investment into the donor advised fund account and obtain a fair market value tax deduction on the date of transfer². You pay no capital gains tax when the investment is liquidated, and the cash proceeds can then be invested and you can recommend grants to your favorite charities immediately or over time at your convenience.

Here is some important information to keep in mind when donating appreciated investments to a charity or donor advised fund account:

Publicly Traded Securities

Restricted Stock

Real Estate

Privately Held Stock (C-Corp and S-Corp)

Limited Partnerships or Limited Liability Corporations

Private Equity, Venture Fund, and Hedge Fund Investments

Collectibles and Artwork

Publicly Traded Securities

Shares of appreciated publicly traded securities, such as stocks and mutual funds, are straightforward assets to donate. For maximum tax benefit, shares must be held for more than one year. You must transfer the shares directly to the charity or donor advised fund account and should not sell the stock. Selling the stock first will trigger capital gains taxes.

Restricted Stock

Executives with concentrated and restricted positions in a public company stock may think about donating shares to help protect against tax exposure in their portfolios. Considerations include:

- If the executive is subject to Rule 144 public sale restrictions, and/or is considered a “control person” in the company, the company’s general counsel must give permission to transfer and later sell the shares at acceptable times.
- Contributions of restricted stock to a charity or donor advised fund account are generally deductible at fair market value on the date of contribution. By contrast, if donated to a private foundation, contributions of restricted stock are generally deductible at the lower of cost basis or market value. A qualified appraisal is generally required to substantiate fair market value.

DEDUCTIBILITY LIMITS FOR DONATIONS OF NON-PUBLICLY TRADED SECURITIES TO A...

	Charity or Donor Advised Fund Account	Private Foundation
Deductible at:	Fair Market Value	Cost Basis
Deductibility Limits	30% of AGI 5 year carry forward	20% of AGI 5 year carry forward

² The article addresses gifts of appreciated assets that have been held for more than a year. The tax deduction for gifts to a public charity or donor advised fund account may be used to offset up to 30 percent of adjusted gross income and can be carried forward for five years. The donor must obtain a qualified appraisal and file IRS Form 8283 for all gifts other than cash and publicly traded securities.

Real Estate

If you contribute highly appreciated real estate to a charity or donor advised fund account, you may take a full, fair-market-value tax deduction for the donation while also avoiding capital gains tax on the sale. It can make sense to donate real estate that meets the following criteria:

- The property has been held for more than a year and has appreciated significantly.
- The property is marketable and relatively easy and cost-effective to liquidate.
- The property is generally debt-free.
- The owner is willing to transfer the property irrevocably to the donor advised fund, which will negotiate the sale price and control the sale, often using an experienced intermediary.

These criteria most often apply to donations of a primary or secondary home or other residential property held for some time. While commercial real estate may also be donated under certain circumstances, the donation may involve legal complications if tenant or lease issues are involved.

Contributions of real estate to a charity or donor advised fund account are generally deductible at fair market value—as determined by an independent qualified appraiser—on the date of contribution, whereas contributions of real estate to a private foundation are generally deductible at the lower of cost basis or market value.

Privately Held Stock (C-Corp and S-Corp)

If you are considering selling shares in a privately held company, you may find that donating a portion of the shares to a charity or donor advised fund account before the sale can help to reduce your tax burden and enable you to give generously to charity². Considerations include:

- The terms of the sale should still be under negotiation. The documentation must not have proceeded to the point at which the IRS would consider it a prearranged sale. That could result in the donor bearing the tax liability for any gain on the sale.
- Contributions of privately held stock to a charity or donor advised fund account are generally deductible at fair market value on the date of contribution—as determined by a qualified appraisal—whereas such contributions to a private foundation are generally deductible at the lower of cost basis or market value.
- The company's shareholder agreements and other governing documents must be reviewed to understand transfer restrictions, timing, and process to complete the charitable transfer.
- You must obtain a qualified appraisal of the shares to substantiate the charitable deduction claimed. Appraisals must be obtained no earlier than 60 days before the date of donation and no later than the date of the donor's tax return (including extensions) for the year of the gift. Appraisals depend on the facts and circumstances at the time of contribution and may be discounted for lack of marketability and/or presence of a minority interest.
- If the sale is not completed, the charity or donor advised fund account controls the contributed shares.

Additional considerations for S-Corp stock:

- After the gift is made but before the sale is completed, the charity or donor advised fund account will generally be subject to unrelated business income tax (UBIT) on its gain from the sale and any income generated during its ownership. The charity or donor advised fund provider will generally use the proceeds of the sale to pay these taxes, and may escrow a portion of the proceeds in a separate account for three years to match the IRS "look back" period, during which the IRS can challenge the cost basis of the shares and the taxes paid.

Limited Partnerships or Limited Liability Corporations (LLCs)

Deductibility rules, holding-period considerations, and adjusted-gross-income limits are generally the same as those for privately held stock. Illiquidity and minority discounts may apply to the appraisal. Unless the interest can be sold back to the entity, a sale may be difficult to arrange. If the interest can be sold, the charity or donor advised fund provider will negotiate the sale price and control the sale using an experienced intermediary. Partnerships and multi-member LLCs are taxed as flow-through entities; thus, if they engage in an active trade or business or have acquired assets with debt, the income earned by the charity or donor advised fund account may be subject to UBIT.

Private Equity, Venture, and Hedge Fund Investments

By donating highly appreciated alternative investments to a charity or donor advised fund account, you can take a full, fair-market-value tax deduction—as determined by a qualified appraisal—for the donation while also avoiding capital gains tax on the sale. Contributions of similar assets to a private foundation would generally be deductible at the lower of cost basis or market value. Considerations include:

- The charity or donor advised fund provider should be able to redeem or sell the interest. Most hedge fund interests can be redeemed periodically at net asset value. Minority limited partnership interests in private equity funds are highly illiquid until fully realized and redeemed by the general partner. Sales of these interests in the secondary marketplace are often subject to steep discounts. Some charities and donor advised fund providers may be able to hold private equity or venture fund interests until scheduled termination dates in order to realize full value of the investment.
- The charity or donor advised fund provider will generally not assume liabilities associated with these investments. Individuals should plan to contribute sufficient liquid assets to cover granting as well as private equity fund open commitments, UBIT, or other liabilities.

Collectibles and Artwork

Gifts to charity or donor advised fund accounts for non-related use are deductible at the lesser of the cost basis or fair market value. Gains on sales by individuals are currently taxed at a higher rate than other long-term capital gains. A donation can help you avoid this tax liability.

Knowing the benefits of donating various appreciated assets is an important component of an overall tax-smart financial plan. And using a donor advised fund may provide even greater tax deductions relative to other vehicles, and thus enabling you to give even more to charity.

Learn More

Get more information and details on the advantages of donating appreciated assets. Please see:

- [Appreciated Securities, Charitable Tax Planning Opportunity](#)

Gifts of appreciated property can involve complicated tax analysis and advanced planning. The above article is meant only to be a general overview of some of the considerations and is not intended to provide tax or legal guidance. If you would like to consider donating appreciated property, please consult with your tax advisor.

Schwab Charitable accepts contributions of real estate, private equity or other non-cash assets via a charitable intermediary, with proceeds of your donation transferred to your donor-advised account upon liquidation. This intermediary considers donations on a case-by-case basis, and assets typically must be valued at \$250,000 or more. Call the Fund for more information at 800-746-6216.

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