


PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS



Fundamentals of Planned Giving

Part Three: Assets Used for Charitable Contributions

Date: July 26, 2022
 Time: 1:00 – 2:30 Eastern
 Presenter: Craig Wruck
 Senior Advisor, PG Calc

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Agenda

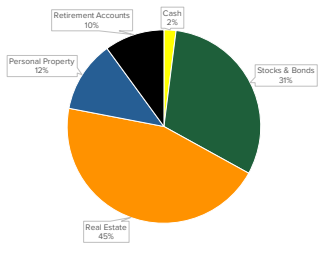
- Review key income tax aspects of non-cash gifts
- Securities – stocks, bonds, and mutual funds
- Fair market value, appraisals, and Form 8283
- Real estate
- Personal property

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Personal Wealth



Asset Class	Percentage
Real Estate	45%
Stocks & Bonds	31%
Retirement Accounts	10%
Personal Property	12%
Cash	2%

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Amount of Deduction

- Publicly traded securities: average between high and low prices on date of gift
- Other non-cash gifts: "fair market value" – price arrived at between willing buyer and a willing seller ...
- More than \$5,000 – qualified appraisal required to determine value

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Capital Gains Tax

- Capital gain: profit on sale of an investment
- Long term capital gain: held more than a year
 - Taxed at preferential rates: 15% or 20%
- Short term capital gain: held year or less
 - Taxed at ordinary income rates
- Capital gain tax is completely avoided with a transfer of long-term capital gain property to charity

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After-tax Cost of a Gift

Assume a donor in the 24% tax bracket is considering a contribution of \$10,000 either in cash or in appreciated securities with a cost basis of \$2,000 (\$8,000 gain).

	Cash	Securities
Contribution	\$10,000	\$10,000
Income taxes saved	2,400	2,400
Capital gain taxes avoided	--	1,200
After-tax cost of gift	\$7,600	\$6,400

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Securities: Stock

- Equity ownership
 - Share value varies with value of the enterprise
 - May pay dividends or distribute income
- Many types – Common, preferred, S-corp
- Contributions
 - Custody account – street name, DTC, book entry
 - Physical certificates
 - Special concerns for S-corp stock

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Securities: Bonds

- Debt obligation – an IOU
 - Price varies inversely with interest rates
- Many types – Corporate, municipal, U.S. government, zero coupon, U.S. Savings
 - Savings bonds do not make good lifetime gifts
- Contribution mechanics

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Securities: Bonds Prices

What would an investor be willing to pay for a bond that pays \$600 per year and then \$10,000 when the bond matures some years in the future?

Interest Rate	Bond Price	Rationale
6%	\$10,000	\$600 is 6% of \$10,000
8%	\$7,500	\$600 is 8% of \$7,500
4%	\$15,000	\$600 is 4% of \$15,000

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Securities: Mutual Funds

- Pooled investment funds
 - More than 9,000 funds in US, worth more than \$15 trillion
 - Almost one-half of household own mutual funds
- Transfer: usually simple except when it's complicated
- Dividend reinvestment programs
- Beware: deduction may be limited if owned for less than one-year

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Securities: Depreciated Property

"Friends don't let friends give when depreciated."

- Securities that are *now worth less* than the donor paid generally do not make tax-wise charitable gifts
- Charitable deduction will be for current fair market value – less than the donor paid
- Selling might make better sense

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Securities: Depreciated Property

Assume a donor in the 24% tax bracket is considering a contribution of securities now worth \$10,000 that cost \$15,000 (resulting in a \$5,000 loss if sold)

	Gift of Securities	Sell & Give Cash
Contribution	\$10,000	\$10,000
Income taxes saved	2,400	2,400
After-tax cost of gift	\$7,600	\$7,600
Capital loss (potentially used to off-set other capital gains)	--	\$5,000

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Fair Market Value and Appraisals

- The price that would be arrived at between a willing buyer and a willing seller
- Deduction up to \$500 – estimate value and enter on Schedule A
- \$501* up to \$5,000 – estimate value, explain, and file form 8283
- More than \$5,000 – qualified appraisal value, charity acknowledges receipt on form 8283

* Deductions over \$500 for contributions of clothing require appraisal

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Substantiation Requirements

- Donors must have written acknowledgement to substantiate charitable deductions
- Non-cash gifts
 - \$500 or less – estimate value on Schedule A
 - \$501 through \$5,000 – estimate value, complete Form 8283 explaining valuation methodology*
 - Over \$5,000 – qualified appraisal, complete Form 8283 with charity acknowledgement

* Deductions over \$500 for contributions of clothing require appraisal

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Form 8283

8283 Non-cash Charitable Contributions

8283 Substantiation Requirements

8283 Substantiation Requirements

8283 Substantiation Requirements

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- Cautious evaluation of risks and rewards
 - Marketability
 - Holding costs
 - Environmental liability
- Other considerations
 - Debt encumbrance
 - Crops and timber
 - The dreaded timeshare

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- Special considerations
 - Marketability at a fair price
 - Expenses while being held
 - Restrictions, reservations and other limitations
 - Alignment with organizations needs and goals
- Charitable deduction
 - "Ordinary Income" property
 - "Related use" rule

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- Consider contribution of a Bridgeport Milling Machine
 - Current Fair Market Value: \$17,500
 - Book Value (after depreciation): \$5,000
- Charitable deduction:
 - \$17,500 - Contributed to vocational/technical school
 - \$5,000 – Contributed to child care center

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Notes on Non-cash Gifts & Gifts-in-kind

- Donors should transfer the item itself, not the proceeds from the sale
- Helpful donors who offer to pre-arrange a sale
- Gifts of services – generally not deductible
- Gifts of art from the artist

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To ask a question click the Q&A button at the bottom

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Still Have a Question?

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