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Assets Used for Charitable Contributions



Date: June 16, 2020
 Time: 1:00 – 2:30 Eastern
 Presenter: Craig C. Wruck
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 PG Calc

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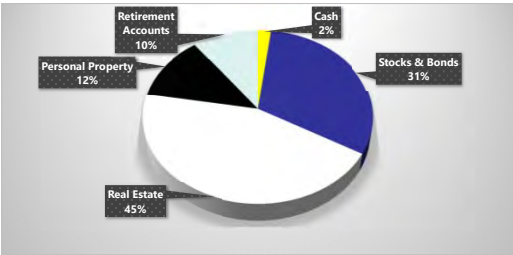
Agenda

- 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%
Personal Property	12%
Retirement Accounts	10%
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



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 avoided on transfer of long term capital gain property to charity



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

Pages 1-3

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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

Pages 4-5

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Securities: Bond 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 Value	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

Page 5

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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 households own mutual funds
- Dividend reinvestment programs
- Transfer complexity
- Beware: short-term = limited deduction

Pages 5-6

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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

Page 6

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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 (\$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




Form 8283 – Section A, \$5,000 or less

Section A. Donated Property of \$5,000 or Less and Publicly Traded Securities—List in this section only an item (or groups of similar items) for which you claimed a deduction of \$5,000 or less. Also list publicly traded securities and certain other property even if the deduction is more than \$5,000 (see instructions).

Part I Information on Donated Property—If you need more space, attach a statement.

Item	Date of contribution	Date acquired (or date of gift)	How acquired (by purchase or otherwise)	Owner's cost or other basis	Fair market value (and replacement)	Method used to determine fair market value
A						
B						
C						
D						
E						


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Personal Property

- 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

Pages 10-11


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Related Use Rule

- 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 non-cash item itself, not the proceeds from the sale
- Helpful donors: pre-arranged sale
- Gifts of services – generally not deductible
- Gifts of art from the artist

Page 12

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