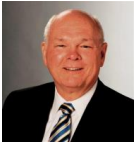



PG Calc | Invested in your mission

Fundamentals of Planned Giving Part 3: Assets Used for Charitable Contributions



Date: March 16, 2016
Time: 1:00 – 2:30 Eastern Time
Presenter: Craig C. Wruck
Vice President, Advancement
Humboldt State University



© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets

PG Calc | Invested in your mission

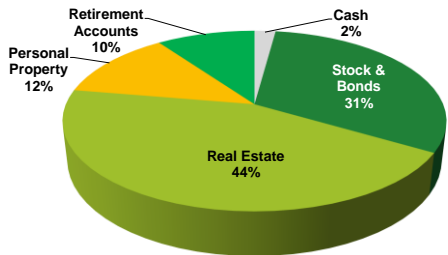
Agenda

- Review income tax aspects of non-cash gifts
- Securities – investments including stocks, bonds, and mutual funds
- Fair market value and appraisals
- Real Property – real estate of all types
- Personal Property – tangible objects and intangible rights

© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets 7

PG Calc | Invested in your mission

What percent of personal wealth is cash?



Asset Class	Percentage
Real Estate	44%
Stock & Bonds	31%
Personal Property	12%
Retirement Accounts	10%
Cash	2%

© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets 8



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 28% 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	2,800	2,800
Capital gains taxes avoided	- -	1,200
After-tax cost of gift	\$7,200	\$6,000



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



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

Page 4



Securities: Bond Prices

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

Interest Rate	Bond Value	
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

Bond values change inversely to interest rates.



Securities: Mutual Funds

- Pooled investment funds
 - More than 14,000 funds worth \$15 trillion
 - More than 23% of household personal wealth
- Dividend reinvestment programs
- Transfer complexity
- Beware: short-term = limited deduction



Depreciated Securities

“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



Gift of Depreciated Property

Assume a donor in the 28% tax bracket is considering a contribution of securities now worth \$10,000 that cost \$15,000 (\$5,000 loss).

	Gift of Securities	Sell and Give Cash
Contribution	\$10,000	\$10,000
Income taxes saved	2,800	2,800
After-tax cost of gift	\$7,200	\$7,200
Capital loss (potentially used to off-set other capital gains)	-0-	\$5,000



What Percent of Households Give?

Answer:



Questions?





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

Part IV Donee Acknowledgment— To be completed by the charitable organization.

This charitable organization acknowledges that it is a qualified organization under section 170(c) and that it received the donated property as described in Section B, Part I, above on the following date ▶ _____


Furthermore, this organization affirms that in the event it sells, exchanges, or otherwise disposes of the property described in Section B, Part I (or any portion thereof) within 3 years after the date of receipt, it will file Form 8282, Donee Information Return, with the IRS and give the donor a copy of that form. This acknowledgment does not represent agreement with the claimed fair market value.

Does the organization intend to use the property for an unrelated use? Yes No

Name of charitable organization (donee)	Employer identification number
Address (number, street, and room or suite no.)	City or town, state, and ZIP code
Authorized signature	Title
	Date

Form **8283** (prev. 12-2013)


27

PG Calc | Invested in your mission 

Other Pitfalls

- Section B: "items (or groups of similar items)"
- Qualified Appraisal:
 1. Specific education or professional designation
 2. Regularly prepares appraisals for pay
 3. Demonstrates verifiable expertise
 4. Fee is not based upon appraised value
- Form 8282


© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets 28

PG Calc | Invested in your mission 


Who Gives the Largest Share to Charity?

Answer:


© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets 29

PG Calc | Invested in your mission 

Questions?



© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets 30


PG Calc | Invested in your mission 

Real Property

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

Pages 6-9

© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets 31

PG Calc | Invested in your mission 

Personal Property

- Special considerations
 - Marketability at a fair price
 - Expenses while being held
 - Restrictions, reservations and other limitations
 - Alignment with organizations needs and goals
- “Related use” rule
 - Outright gifts
 - Caveats for certain life income gifts

Pages 10-11

© 2016 Craig C. Wruck Fundamentals of Planned Giving - Assets 32



Related Use Rule

- Contribution of a Bridgeport Milling Machine
 - Current Fair Market Value: \$17,500
 - Book Value (after depreciation): \$5,000





Notes on Non-cash Gifts

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



Still Have a Question?

Contact: Craig Wruck

E-mail: craig.wruck@gmail.com
