

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



Date:
Time:
Presenter

July 30, 2014 1:00 – 2:30 Eastern Time Craig C. Wruck Vice President, Advancement Humboldt State University





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



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		1,600
After-tax cost of gift	\$7,200	\$5,600



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



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

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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



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

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Form 8283	Noncash Charitable Contributions	OMB No. 1545-0908
(Rev. December 2013) Department of the Treasury	Attach to your tax return if you claimed a total deduction of over \$500 for all contributed property.	Attachment
Internal Revenue Service	Information about Form 8283 and its separate instructions is at www.irs.gov/form8283.	Sequence No. 155

Name(s) shown on your income tax return

Identifying number

Note. Figure the amount of your contribution deduction before completing this form. See your tax return instructions.

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

Par	rtl Inform	ation on Donate	d Prop	ert	y-	-If	you	u n	ee	d r	no	re	spa	ac	e, i	att	ac	h a	i st	ate	eme	ent.						
1		(a) Name and address of the donee organization				(b) If donated property is a vehicle (see instructions), check the box. Also enter the vehicle identification number (unless Form 1098-C is attached)										mi		aw	ehicle or se	e, ente curitie	er the es, ent	year, n	compar	erty nodel, ar ny name				
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al Interests and Restricted Use Property—Com e interest in a property listed in Part I. Complete I ibution listed in Part I; also attach the required state	ines (Ba through 3c if cond			
atter from Part I that identifies the property for which you g plies to more than one property, attach a separate statem		ss than an entire interes	t 🕨		
int claimed as a deduction for the property listed in Part I:		For this tax year For any prior tax years	*		
address of each organization to which any such contribution onee organization above): table organization (donee)	ution v	vas made in a prior yea	r (complete only	if diffe	rent
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ny person, other than the donee organization, having act	ual pos	ssession of the property	·		
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	the de	onated property or to the roperty by purchase or o	e possession of otherwise, or to		
estriction limiting the donated property for a particular use	? .				
the pe estrict	rson having such income, possession, or right to ac	rson having such income, possession, or right to acquire? tion limiting the donated property for a particular use?	rson having such income, possession, or right to acquire?	· · · · · ·	rson having such income, possession, or right to acquire?

Form 8263 (Rev. 12-2013)		Page
Name(s) shown on your income tax return	Identifying number	
reported in Section A). An appraisal i	t Publicly Traded Securities)—List in this see of more than \$5,000 per item or group (excep s generally required for property listed in Section erty—To be completed by the taxpayer	t contributions of publicly traded securities on B (see instructions).
 Check the box that describes the type of prope a Art* (contribution of \$20,000 or more) d Art* (contribution of less than \$20,000) g Collectibles** 	try donated: b Qualified Conservation Contribution e Other Real Estate h Intellectual Property	c Equipment f Securities i Vehicles

'Art includes paintings, sculptures, watercolors, prints, drawings, ceramics, antiques, decorative arts, textiles, carpets, silver, rare manuscripts, historical memorabilia, and other similar objects.

**Collectibles include coins, stamps, books, gems, jewelry, sports memorabilia, dolls, etc., but not art as defined above. Note. In certain cases, you must attach a qualified appraisal of the property. See instructions.

5		of donated property (if you need attach a separate statement)		(b) If tangible property was donated, give a brief summary of the overall physical condition of the property at the time of the gift							
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D		0	pa - 1								
	(d) Date acquired	(e) How acquired by donor	(f) Donor's cost or	(g) For bargain sales, enter	See instr	ructions					
	by donor (mo., yr.)	ter non acquired by donor	adjusted basis	amount received	(h) Amount claimed as a deduction	Date of contributio					
Α											
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I declare that the following item(s) included in Part I above has to the best of my knowledge and belief an appraised value of not more than \$500 (per item). Enter identifying letter from Part I and describe the specific item. See instructions.

Signature of taxpaver (donor)

i Other

Signature of	taxpayer (donor)			Date	
Part III	Declaration of Appraiser				

I declare that I am not the donor, the donee, a party to the transaction in which the donor acquired the property, employed by, or related to any of the foregoing persons, or marined to any person who is related to any of the foregoing persons. And, if regularly used by the donor, donee, or party to the transaction, I performed the majority of my appraisals during my tax year for other persons.

Also, I declare that I perform appraisals on a regular basis; and that because of my qualifications as described in the appraisal, I am qualified to make appraisals of the type of property being valued. I certify that the appraisal fees were not based on a percentage of the appraised property value. Furthermore, I understand that a false or fraudulent overstatement of the property value as described in the qualified appraisal of this Form 8263 may subject the to the penalty under section 6701(a) (aiding and abetting the understatement of tax liability). In addition, I understand that I may be subject to a penalty under section 6695A if 1 know, or reasonably should know, that my appraisal is to be used in connection with a return or claim for return and a substantial or gross valuation misstatement results from my appraisal. I affirm that I have not been barred from presenting evidence or testimonry by the Office of Professional Responsibility.

S		

Here	Signature ►	Title 🕨	Date 🕨	
Business	address (including room or suite no.)		Iden	ntifying number

City or town, state, and ZIP code

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 No
Name of charitable organization (donee)			Emp	oloy	er i	den	tific	cati	on r	nun	ber	2					

Authorized signature	TiLe	Date
Address (number, street, and room or suite no.)	City or town, state, and ZIP code	

Data b

Form	n 8283 (Rev. 12-2013)					Page 2
Nam	Identifying number					
Sec	for whic	roperty Over \$5,000 (Exce th you claimed a deduction d in Section A). An appraisal	of more than \$5,000) per item or group (exce	ept contributions of	publicly traded securities
Pa	art I Inform	ation on Donated Prop	erty-To be com	pleted by the taxpaye	r and/or the app	raiser.
4	Check the box ti	hat describes the type of prop	erty donated:			
		ution of \$20,000 or more) ution of less than \$20,000) *	e 🗌 Other Rea	Conservation Contribution al Estate al Property	c Equipme f Securitie i Vehicles	s
othe	r similar objects. llectibles include coins, e. In certain cases, y (a) Description	lptures, watercolors, prints, drawir stamps, books, gems, jewelry, sp ou must attach a qualified app of donated property (if you need	orts memorabilia, dolls, et praisal of the property. (b) If tangible pro	tc., but not art as defined abov	e. I summary of the overa	
	more space,	attach a separate statement)	priysical	conduction of the property at the	e unite or une gait	market value
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	by donor (mo., yr.)	(e) How acquired by donor	adjusted basis			a 🚯 Date of contribution
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Pa		yer (Donor) Statement- e of \$500 or less. See ins		ncluded in Part I above	e that the apprai	sal identifies as having

I declare that the following item(s) included in Part I above has to the best of my knowledge and belief an appraised value of not more than \$500 (per item). Enter identifying letter from Part I and describe the specific item. See instructions.

Signature of taxpayer (donor) >

Part III Declaration of Appraiser

I declare that I am not the donor, the donee, a party to the transaction in which the donor acquired the property, employed by, or related to any of the foregoing persons, or married to any person who is related to any of the foregoing persons. And, if regularly used by the donor, donee, or party to the transaction, I performed the majority of my appraisals during my tax year for other persons.

Also, I declare that I perform appraisals on a regular basis; and that because of my qualifications as described in the appraisal, I am qualified to make appraisals of the type of property being valued. I certify that the appraisal fees were not based on a percentage of the appraised property value. Furthermore, I understand that a false or fraudulent overstatement of the property value as described in the qualified appraisal or this Form 8283 may subject me to the penalty under section 6701(a) (aiding and abetting the understatement of tax liability). In addition, I understand that I may be subject to a penalty under section 6695A if I know, or reasonably should know, that my appraisal is to be used in connection with a return or claim for retund and a substantial or gross valuation misstatement results from my appraisal. I affirm that I have not been barred from presenting evidence or testimony by the Office of Professional Responsibility.

Sign			
Here	Signature ►	Title ►	Date ►
Business	address (including room or suite no.)		Identifying number

City or town, state, and ZIP code

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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	🕨 🗋 Yes 🛄 No	
Name of charitable organization (donee)	Employer identification num	nber
Address (number, street, and room or suite no.)	City or town, state, and ZIP of	ode
Authorized signature	Title	Date
	1	

Form 8283 (Rev. 12-2013)

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?				
Name of charitable organization (donee)	Employer identification r	number		
Address (number, street, and room or suite no.)	City or town, state, and ZI	P code		
Authorized signature	Title	Date		
		Form 8283 (Rev. 12-2013)		



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



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



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



Related Use Rule

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



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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

PG Calc | Invested in your mission



Still Have a Question?

Contact: Craig Wruck

E-mail: craig@wruck.com

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