

Gifts of Property

Opportunities and Benefits



Over the years, every sort of property has been given to charity. Tobacco, animals, crops and rum were common gifts in the pioneer days of our country. Today, the most popular gifts of property are stocks and bonds, life insurance and real estate, but the philanthropic spirit is the same. In this booklet, we outline ways to give property and some of the opportunities and benefits that result.

Gifts of Marketable Securities

Many people give marketable securities to the charitable institutions they wish to support.

Stocks listed on one of the major exchanges can be transferred to a charitable institution quickly and easily. And, there are definite tax advantages in giving securities that have appreciated in value.

Income tax charitable deduction. In most cases, the full fair market value of the stocks, bonds and mutual fund shares given to charity will be allowable as a charitable deduction. For example, if you give stock that is now worth \$10,000, you can claim this full amount as an income tax deduction (if you have held it more than one year) even though you may have bought the stock for substantially less.



The value of the stock — and the amount of the contribution — is the mean between the highest and lowest selling price on the date of the gift, or the mean between the bid and asked price on the date of the gift in the case of mutual fund shares.

When is the date of the gift? It is the day the stock certificate or bond is delivered to the charity, transferred to its brokerage account, or postmarked. If possible, you should make your gift on a day when the market value of the stock is relatively high.

Caution: There is an important exception to the general statement that the full fair market value of the stock or bond is deductible. If a sale of the security on the date of the gift would give rise to ordinary income or short-term capital gain — as distinguished from a long-term capital gain — the charitable deduction is limited to your “adjusted cost basis” for the security.

Avoidance of capital gains taxes A gift of securities to our institution is not considered a sale of those securities, so it does not result in any capital gains tax. This is an important tax reward provided by Congress to encourage gifts of appreciated stocks and bonds.

No matter how much the stocks, bonds, and mutual fund shares have appreciated in value, a charitable gift will not make any part of your profit taxable. This means you get a charitable

deduction even on potential profits that have never been taxed to you.

Example: Jim owns 100 shares of XYZ stock that he bought in 1998 at a cost of \$2,500. On June 19 of this year he instructs his broker to transfer the stock to our account and the gift is completed on that day. XYZ stock sold for a high of $85 \frac{3}{4}$ and a low of $84 \frac{1}{4}$ on June 19.

Jim can deduct \$8,500 as a charitable contribution (the mean between the high and low price of 100 shares on the date of the gift). And he completely avoids a capital gains tax on the \$6,000 appreciation in the value of the stock.

The after-tax cost of the generous gift of \$8,500 will depend on Jim’s federal income tax bracket (with a 15 percent cap on the long-term capital gains tax rate):

| | 28% Tax Bracket | 35% Tax Bracket |
|----------------------------|-----------------|-----------------|
| Value of Gift | \$8,500 | \$8,500 |
| Charitable Deduction Saves | – 2,380 | – 2,975 |
| Capital Gains Tax Avoided | – 900 | – 900 |
| After-Tax Cost of Gift | \$5,220 | \$4,625 |

Our institution is tax-exempt When our institution sells the XYZ stock, we are able to use all of the proceeds. We do not pay any capital gains tax, no matter how much the property has appreciated in value.

Therefore, Jim, in a 35 percent federal income tax bracket, can give our institution \$8,500 at an after-tax cost of only \$4,625 — less than 56 percent of the value of the gift to us.

Limitation on the tax deduction The deduction allowable for a gift of long-term, appreciated securities cannot exceed 30 percent of your adjusted gross income. Thus, if your income is \$300,000, the maximum deduction that can be claimed in the year of the gift will be \$90,000. Any excess gift over that limitation can be carried over and deducted in up to five subsequent years.

A donor can avoid this 30 percent limitation by a tax election to deduct only the cost basis of the stock. If this election is made, the deduction can be as much as 50 percent of your adjusted gross income (the same as for a cash gift).



Gifts of Closely Held Stock

A charitable gift of closely held stock presents a unique opportunity for some of our friends, especially if the closely held corporation has substantial accumulated profits. The reason is that after the gift has been made, the charity can accept an offer from the corporation to buy back the stock and retire it. This gives the stockholder approximately the same percentage control he or she had before the gift was made.

Of course, the fair market value of the closely held stock is deductible as a charitable contribution, and there is no capital gains tax on a transfer made by charitable gift no matter how much the stock has appreciated in value. But the great popularity of this giving technique lies in the fact that the donor can get a charitable deduction without being taxed on the cash distribution in redemption of the stock.

We can provide more information about this giving technique that can produce future estate tax benefits, and can also play an important role in business tax planning. Call us at your convenience.

Gifts of Real Estate

In recent years, gifts of real estate to charitable institutions have become quite popular. When real estate is given to our institution, capital gains taxes (if applicable) are completely avoided and the full fair market value of the property is deductible as a charitable contribution. (We are assuming that the real estate qualifies as long-term appreciated property, that it has no mortgage debt against it, and that the donor is not in the business of buying and selling real estate.)

Example: Paul owns a 30-acre plot of unimproved land that he bought for \$30,000 and that is now worth \$400,000. If he sells the property, he could incur state and federal capital gains tax and selling costs that might consume up to 25 percent of his potential profit.

A gift of the property to a qualified charitable institution will avoid the capital gains tax and selling costs. Moreover, the \$400,000 charitable deduction will produce an income tax savings of \$140,000 in Paul's 35 percent tax bracket. (A portion of Paul's large deduction might not be deductible in the current year but would carry over for up to five years.)

Gift of fractional interest in vacation homes Our federal tax laws permit a charitable deduction for gifts of fractional interests in real estate. This type of gift can be especially rewarding if you own a vacation home that you use only part of the year.

Example: Mary and Jim own a vacation home that they use for only a few months of the year. They can give our institution a 50 percent interest in the property, gain a tax deduction and still have a right to use and occupy the property for six months every year.

Gift of a remainder interest in a residence or farm A provision of the tax law allows an immediate income tax charitable deduction for an outright gift of a remainder interest in your home or farm. You may retain an absolute right to occupy the home or farm for your life (or you can give family members a right of lifetime occupancy). The property passes to us only after those lifetimes.

The immediate charitable deduction allowable for this future gift is the present value of



our right to receive the property at some later date. The age of the life tenants is the primary factor in determining the present value of our deferred interest and the resulting allowable charitable deduction.

We will be pleased to provide an approximate charitable deduction and to discuss with you the other financial factors involved in this form of gift.

Gifts of Life Insurance

Many of our friends have life insurance policies that are no longer needed for their protection or the security of their families. A good example might be a policy purchased for a child's education, when the child is now out of school.

When a donor gives us a life insurance policy that is paid up, the fair market value the donor can deduct is the cost to replace the policy with a single-premium policy. Or, if premiums remain to be paid on the policy, the fair market value is considered to be the interpolated terminal reserve (slightly less than the cash surrender value) plus unearned premiums. In either case, the donor should deduct the either the fair market value or the cost basis (whichever is less).

Gifts of Tangible Personal Property

Antiques, artwork, jewelry, book collections — these are just a few of the kinds of tangible personal property that friends have used in making charitable gifts to us. The full fair market value of such assets generally is deductible provided the gift asset is used for our charitable-exempt purpose. Otherwise, the deduction is limited to its adjusted cash basis.

While the maximum capital gains tax rate for most long-term appreciated assets has been scaled back to 15 percent through 2010, the 28 percent rate was unchanged for tangible personal property considered "collectibles." The upshot is that a well-planned gift of a collectible may generate a larger capital gains tax savings compared to other long-term appreciated property (28 percent vs. 15 percent), assuming, of course, it is used for our charitable exempt purposes. Our staff can help plan your gift so that you don't inadvertently lose your maximum tax benefits.



Life Income Plans — Gifts with a Retained Income

In addition to outright gifts, long-term appreciated property is often used to fund what are called “life income gift plans.” A life income plan is an arrangement whereby income will be paid to the donor and/or designated beneficiaries for their lifetimes. Our institution will eventually receive the gift property — or be able to use the gift property — only after all income benefits have terminated.

A life income gift plan may take the form of a charitable remainder trust, a gift annuity or a pooled income fund. The plan best for you depends upon a variety of factors: the size of your gifts, your age and your desire for either a fixed or variable income.

Under a well-arranged life income gift plan, you often can increase your spendable income, substantially reduce your taxes, and, at the same time, be recognized for making a gift that will have a substantial impact on our future.

You Can Depend on Us

Let us know if you are interested in exploring the many opportunities and benefits of a gift of property to us. Our professional development team is highly qualified and will be happy to meet with you and your advisors to craft a plan that will best meet your needs.

