



PAUL NEFF

GIVING APPRECIATED ASSETS

A very tax effective giving strategy is when you give an appreciated asset. By giving away the appreciated asset you avoid the tax on the gain portion of the asset while you still receive 100% of the tax deduction for the fair market value of the investment. Under this scenario, your charity/ ministry will receive significantly more money, and you will receive only a little less than if you sold the asset and paid the taxes.

Here's how I think about it. We'll be looking at two options:

1. No gift and keep the cash. ("Perhaps I'll give later, or even after death"), or,
2. Gift the asset during your lifetime and let your donor advised fund or private foundation sell it.

Option #1: You may be considering a sale of a \$1,000,000 asset and keeping the net proceeds for lifestyle or reinvestment. In this case, as a California resident, you will pay around \$371,000 dollars in taxes, and you'll pocket \$629,000. A solid result. It's good to have the cash, but nothing goes to ministry anytime soon.

Option #2: You gift the asset before a potential sale and let your donor advised fund or private foundation sell it. If this is a long-term capital gain asset, you get a charitable tax deduction for the full fair market value, which means tax refunds of \$453,000. That's real money in your pocket, no less "green" than the money in #1 above.

So, let's compare. In both options, you receive cash. The difference between options 1 and 2 is \$176,000 less when you choose to give. But option 2 has \$1,000,000 going towards the ministry, option #1 has *nothing*. In other words, when you forego \$176,000, it unlocks \$1,000,000 for ministry! That's a 5-to-1 deal, which frankly is very compelling.

Here are a couple of other thoughts. You can give a partial interest in an asset (e.g., 10% or 20%). It doesn't need to be the whole interest- the numbers usually work out similarly. Also, the 5 to 1 benefit is about how it works out when the charitable deduction goes against ordinary income. It is a 3 or 4-to-1 benefit when it goes against capital gains income. Other factors affect the relative benefits, including the tax basis in the asset, state of residence, the type of asset/entity, valuation discounts, debt inside the entity, etc. These could bring the benefit down, but it is likely still substantial.

Unfortunately, you can't give real estate to a private foundation, but you can do a donor advised fund. So, when we give real estate assets, we always give it to our donor advised fund because it's a public charity and you can do it there. You may also consider giving appreciated stocks. Every December I always look at our stocks to see if we have any that are in the positive and we can give stock instead of cash. If you choose this as an option, you don't have to claim any of that as income. It's always better to give appreciated assets where you can - whether it's real estate, stocks, bonds, really any assets that you have, that have appreciated.

Typically, you don't give the appreciated asset directly to the charity/ ministry and you end up either giving it to your private foundation or a donor advised account. Appreciated stocks or bonds or any investment that has a set daily value by the market are very easy to give away. Appreciated real estate and/or interest in a private company is a little more challenging to give but well worth the effort. There are certain requirements regarding an appraisal and the timing of the gift; therefore, as soon as you are considering giving an appreciated asset you should consult with your tax advisor.

I've included two handouts of the tax and financial benefits of giving an appreciated asset, titled **Real Estate Gift Scenarios** and **Stock Gift Scenarios**. They are taken from the National Christian Foundation (NCF) which is a nonprofit organization that helps people give with greater impact. Through their donor-advised funds and creative ways to give, whether in cash, stock or real estate; they have helped direct billions of dollars to churches, ministries and charities around the world. You can learn more at www.ncfgiving.com.