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Assets Used for Charitable Contributions



Date: July 24, 2018
 Time: 1:00 – 2:30 Eastern
 Presenter: Craig C. Wruck
 Vice President, Advancement
 Humboldt State University

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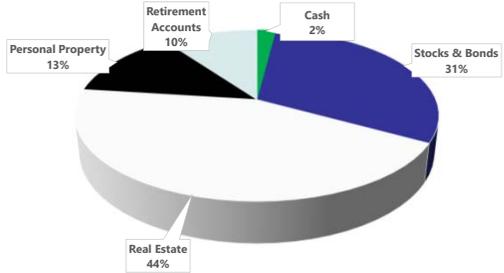
Agenda

- 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

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Personal Wealth



Asset Category	Percentage
Real Estate	44%
Stocks & Bonds	31%
Personal Property	13%
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

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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

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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 gains 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

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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

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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

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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

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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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Depreciated Securities

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).

	Gift of Securities	Sell and 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)	-0-	\$5,000

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Form 8283 (Rev. 12-2013) Page 2

Name(s) shown on your income tax return Identifying number

Section B. Donated Property Over \$5,000 (Except Publicly Traded Securities)—List in this section only items (or groups of similar items) for which you claimed a deduction of more than \$5,000 per item or group (except contributions of publicly traded securities reported in Section A). An appraisal is generally required for property listed in Section B (see instructions).

Part I Information on Donated Property—To be completed by the taxpayer and/or the appraiser.

4 Check the box that describes the type of property donated:

<input type="checkbox"/> a Art (contribution of \$20,000 or more)	<input type="checkbox"/> b Qualified Conservation Contribution	<input type="checkbox"/> c Equipment
<input type="checkbox"/> d Art (contribution of less than \$20,000)	<input type="checkbox"/> e Other Real Estate	<input type="checkbox"/> f Securities
<input type="checkbox"/> g Collectibles**	<input type="checkbox"/> h Intellectual Property	<input type="checkbox"/> i Vehicles
<input type="checkbox"/> j Other		

*Not includes paintings, sculptures, watercolors, prints, drawings, ceramics, antiques, decorative arts, bronzes, 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 order to claim a qualified appraisal of the property, see instructions.

5 (a) Description of donated property (if you need more space, 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 (c) Appraised fair market value

	(a)	(b)	(c)
A			
B			
C			
D			

6 (a) Date acquired by donor (mo., yr.) (b) Fair acquisition by donor (c) Donor's cost or adjusted basis (d) If for bargain sales, enter amount received (e) Appraised fair market value at a deduction (f) Date of contribution

	(a)	(b)	(c)	(d)	(e)	(f)
A						
B						
C						
D						

Part II Taxpayer (Donor) Statement—List each item included in Part I above that the appraisal identifies as having a value of \$500 or less. See instructions.

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. 16

Signature of taxpayer (donor) Date

Form 8283 (Rev. 12-2013) Page 2

Name(s) shown on your income tax return Identifying number

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**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.

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D						

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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 related 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 the 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 6655(A) if I know, or reasonably should know, that my appraisal is to be used in connection with a return or claim for refund and a substantial or gross valuation misstatement results from my appraisal. I affirm that I have not been barred from practicing appraisals or testimony by the Office of Professional Responsibility.

Sign Here Date

Signature Title

Business address (including room or suite no.) Identifying 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

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

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Other 8283 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

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Real Estate

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

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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
- “Related use” rule
 - ✓ Outright gifts
 - ✓ Caveats for certain life income gifts

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Related Use Rule

- Contribution of a Bridgeport Milling Machine
 - ✓ Current Fair Market Value: \$17,500
 - ✓ Book Value (after depreciation): \$5,000
- \$17,500 - Contributed to technical school
- \$5,000 - Contributed to child care center

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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

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Still Have a Question?

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