HOW TO

MAXIMIZE YOUR CHARITABLE CONTRIBUTIONS

The benefits of contributing long-term capital gain property to a charity.

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Most investors are aware of the potential tax benefits of charitable giving. In fact, many of us often write checks to our favorite charities with tax benefits in mind as a second objective, after supporting the organization's mission. However, have you ever considered making a charitable donation in a form other than cash? Donating appreciated private equity investments, instead of the cash associated with the sale of these investments, offers an opportunity to provide greater contributions, not reduced by taxes, to the charity.

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The benefits of contributing long-term capital gain property to a charity include:

1. Subject to IRS limitations, a donor of long-term capital gain property to a public charity is generally entitled to a fair market value charitable income tax deduction.
2. A donor of long-term capital gain property often does not have recognition of capital gain on the built-in appreciation of the property. If executed correctly, the donor would not owe capital gains tax on the contributed asset. In addition, the public charity, as the seller of the asset, would not be required to pay capital gains tax.

For example, Ben owns publicly traded stock of ABC Company, which has an adjusted cost basis of $100 and a fair market value of $1,000.

- If he sells the stock, he will be responsible for $900 of taxable capital gain. Assuming a 20 percent federal capital gains rate plus 3.8 percent net investment income tax rate, and excluding any state or local income tax, Ben will have $785.80 in net proceeds from the stock sale.

- If Ben donates the after-tax amount to a charity, the charity would receive $785.80, and Ben would be able to claim a charitable donation deduction of that amount.
- If, on the other hand, Ben were to donate the ABC Company stock in-kind, the charity would receive $1,000, and Ben would be eligible for a charitable donation deduction of $1,000.

Recognizing this benefit, many charities now provide an automated process for donating stock, which makes it virtually as easy as giving cash.

Who does this strategy work for?

Many high-net-worth investors can benefit from this strategy for charitable giving. Private equity professionals, in particular, are in a prime situation to benefit from making charitable donations of privately held assets, as they often own a portfolio comprised mainly of private equity interests.

In addition, there is an added benefit to the individual when he or she donates private equity investments to a public charity. Because individuals typically hold the assets with a negligible or zero tax basis, if the asset is sold, a capital gains tax would be owed on nearly the entire value of the asset. This is not the case for donated assets, as those assets can pass to the charity without triggering a taxable event.

Timing

If you are considering the donation of private equity investments, it is especially important to work with your wealth advisor to determine the optimal timing of the donation. If the entity is under a binding commitment to sell the private equity investment at a certain time, the donation may be considered an anticipatory assignment of income. Your wealth advisor will work with you to determine:

- If the donation will occur prior to an agreement or letter of intent to sell the property. If this is the case, you, as the donor, will likely not be taxed on the gain.
- If the donation occurs after the execution of the sell agreement or letter of intent, but the sale is subject to contingencies, you may be subject to tax on the gain.
- If the donation occurs after the execution of the agreement or letter of intent, you will likely be subject to tax on the gain.

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Conclusion

There can be significant benefits associated with private equity charitable donations, for both the donor and the charity. This strategy can be especially beneficial for private equity professionals and other high-net-worth individuals who have a large portion of their net worth in private investments. However, the timing of the donations is key to securing the tax benefits associated with such a strategy. Your advisor can guide you through the process and timing.

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FOR MORE INFORMATION

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