FOUNDATIONSOURCE

Reducing the Tax Liability of Appreciated Assets

A PRIVATE FOUNDATION CAN PROVIDE SIGNIFICANT TAX SAVINGS SAVINGS FOR YOUR CLIENTS

If you have charitably inclined clients with highly appreciated assets (e.g., real estate, collectibles, artwork), an ideal way for them to retain some level of control over those assets for the long term – and enjoy significant tax savings on their appreciation – is to donate them to a private foundation. In doing so, they avoid capital gains tax, plus they get a charitable income tax deduction. **And the ultimate cherry on top is the unsurpassed philanthropic flexibility and financial control that come with having their own private foundation.**

Unlike other charitable solutions, the assets contributed to a private foundation stay under your client's direct control and your financial management. Your client gets immediate income tax savings, even though the contributed funds or assets don't need to be distributed to charitable causes right away. And in addition to reducing or eliminating capital gains exposure, **a private foundation offers a bonus: the opportunity to effect positive change in the world.**

Consider the following three tax strategies that utilize a private foundation.

1. Maximize Tax Savings with a Donation of Appreciated Securities

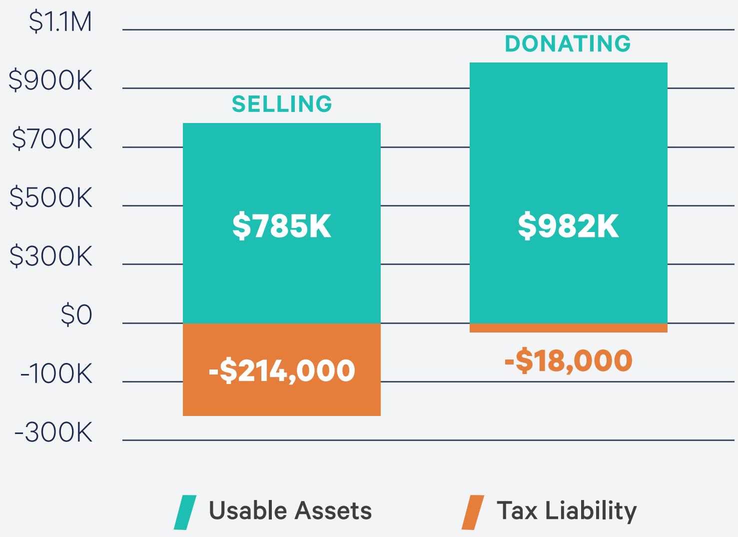
If appreciated stocks are contributing to your client's bottom line, one tax-effective strategy is to contribute up to 20% of their adjusted gross income (AGI) to a private foundation in the form of highly appreciated, publicly traded stock held for at least a year.

UNLIKE WITH OTHER CHARITABLE SOLUTIONS, THE FUNDS CONTRIBUTED TO A PRIVATE FOUNDATION STAY UNDER YOUR CLIENT'S DIRECT CONTROL AND YOUR FINANCIAL MANAGEMENT

If your client were to sell these securities, they could have tax liability arising from long-term capital gains. If they're in the highest marginal tax bracket, the effective long-term capital gains tax rate would be 23.8% (taking into account the 3.8% net investment income tax). However, if they were to take that stock and donate it to their foundation, they'd be eligible to get a fair-market value deduction and avoid the substantial capital gains tax.

Example: Let's say Mary Smith, who is in the highest marginal tax bracket, bought stock for $100,000 five years ago, which has since appreciated to $1M. If she were to sell the stock for its current value, her capital gains exposure would be $214,200 ($900,000 gain at 23.8% = tax bill of $214,200), leaving $785,800 for her personal benefit. If, instead of selling the stock, she donated it to her private foundation, her foundation's tax rate would be, at most, its 1.39% excise tax. The resulting tax bill would be $18,000, leaving $982,000 for charitable purpose under her direct control.

Selling vs. Donating



2. Make a Combined Donation of Stock and Cash

Alternatively, Mary could combine her donation of highly appreciated stock with a cash donation.

Example: Let's say Mary's AGI is approximately $5M. Her AGI maximum is therefore $1M for stock (20%). If she were to donate cash, she'd be permitted to donate up to 30% of her AGI—an additional 10%. She could therefore donate that same $1M of highly appreciated stock used in the previous example along with an additional $500,000 in cash. Assuming she has no other limitations (this example is exclusively for illustrative purposes), she would be eligible for a deduction of up to $1.5M. Meanwhile, her private foundation would only pay a 1.39% excise tax on the stock's gain of $900,000, resulting in a tax bill of $18,000 and a $982,000 endowment for her foundation.

3. Donate Other Types of Appreciated Assets

Private foundations can be funded with a wide variety of assets. And unlike other giving vehicles that require liquidation of donated assets, private foundations can continue to hold them. These assets could include:

- Publicly traded securities
- Alternative assets, including private equity
- Real estate
- Tangible assets (art, jewelry, collectibles)
- Intangible personal property (copyrights, patents, royalties)
- Life insurance and annuities
- Cryptocurrency

PRIVATE FOUNDATIONS CAN BE FUNDED WITH, AND CONTINUE TO HOLD, A WIDE VARIETY OF ASSETS

Note that not all contributions are treated the same with respect to cost basis and deductibility. Whereas cash donations are deductible up to 30% of AGI, assets are generally deductible at the lesser of cost basis and fair market value (with the exception of certain publicly traded stock, as mentioned above) for 20% of AGI. Any contributions that exceed the applicable AGI caps can be carried forward for up to five years. And if your client has a charitable remainder trust, they can name their foundation as the beneficiary.

Additional Benefits of Private Foundations

Tax savings aside, private foundations offer nearly endless capabilities for investors to engage in philanthropy. Here are just some of the things one can do with a foundation:

- Make grants to nonprofit organizations – nationally and internationally
- Make grants directly to individuals in times of emergency or hardship
- Issue loans to nonprofit organizations that are aligned with the foundation's mission
- Create and run charitable activities (e.g., a camp for children with special needs; a shelter for victims of domestic violence)
- Establish scholarship/award programs for individuals
- Invest in for-profit companies that are aligned with the foundation's mission

Additionally, private foundations afford investors the opportunity to build a meaningful legacy of giving and to unify their families through philanthropy.

(Almost) Immediate Gratification

Because Foundation Source can establish a new private foundation in less than a week, you don't have to wait to lock in your client's tax savings. They can get started on their philanthropic legacy right away! Schedule a call with us or reach us at 800-839-0054 to learn more about the important benefits of a private foundation.

HAVE A QUESTION?

Call 800.839.0054 or send us an email at info@foundationsource.com.

www.foundationsource.com

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