FOUNDATIONSOURCE

Reducing the Tax Liability of Appreciated Securities

A PRIVATE FOUNDATION CAN PROVIDE SIGNIFICANT TAX SAVINGS

If you have charitably inclined clients with highly appreciated securities, this could be the ideal time for them to act. By donating those securities to a private foundation, they capture the gains without paying a capital gains tax, plus they get a charitable income tax deduction. **The ultimate cherry on top is the unsurpassed financial control and philanthropic flexibility that come with having their own private foundation.**

Unlike other charitable solutions, the funds 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 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 the most important benefit of all: a better world for everyone.**

Maximize Tax Savings with a Donation of Appreciated Securities

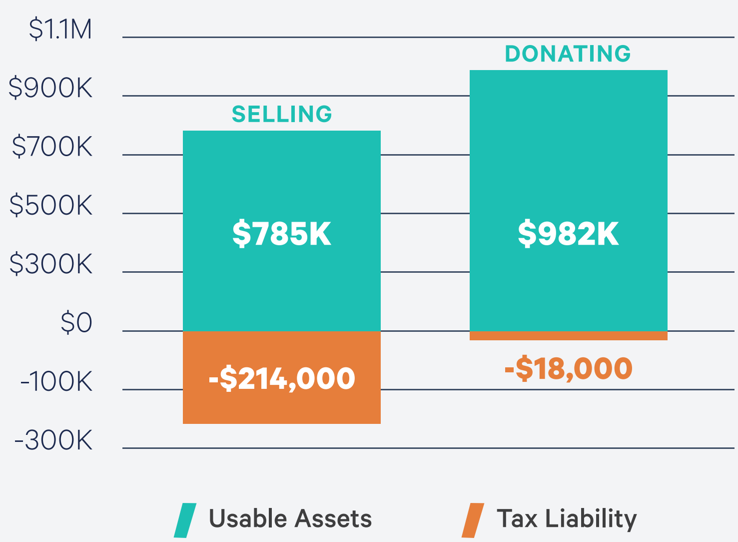
If appreciated stocks are contributing to your client's bottom line, one tax-effective strategy is to contribute up to 20% of their AGI to a private foundation in the form of highly appreciated, publicly traded stock held for at least a year.

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.

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

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. Moreover, if the stock is donated in a year in which her private foundation actively plans for the 1% tax rate, the excise tax payment would be only $9,000.

Selling vs. Donating



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. If the stock were donated in a year in which the foundation planned for a 1% tax rate, the tax bill would be only $9,000.

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 include:

- Cash and 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

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

Tangible assets are generally deductible at cost basis for 20% of AGI. Any contributions that exceed these limits 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.

(Almost) Immediate Gratification

Because Foundation Source can establish a new private foundation in just three business days, you don't have to wait to lock in your client's tax savings. They can get started on their philanthropic legacy right away! Give us a call today to learn more about the important benefits of a private foundation.

ABOUT FOUNDATION SOURCE

Foundation Source **empowers people and companies to create a better world** through philanthropy. As the nation's largest provider of foundation management services, we're a trusted source for philanthropic expertise. We invest in industry-leading technology for private foundations and offer a configurable suite of administrative, compliance, tax and advisory solutions that meet you where you are in your philanthropic journey.

For more than two decades, we've worked with individuals, families, boards and professional advisors to preserve legacies and make giving easier. Today we are proud to support **more than 2,000 unique foundations** and have facilitated over **$10 billion in charitable aid.** With a 98% retention rate, we are honored to have earned the trust and loyalty of our clients.

HAVE A QUESTION?

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

www.foundationsource.com

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