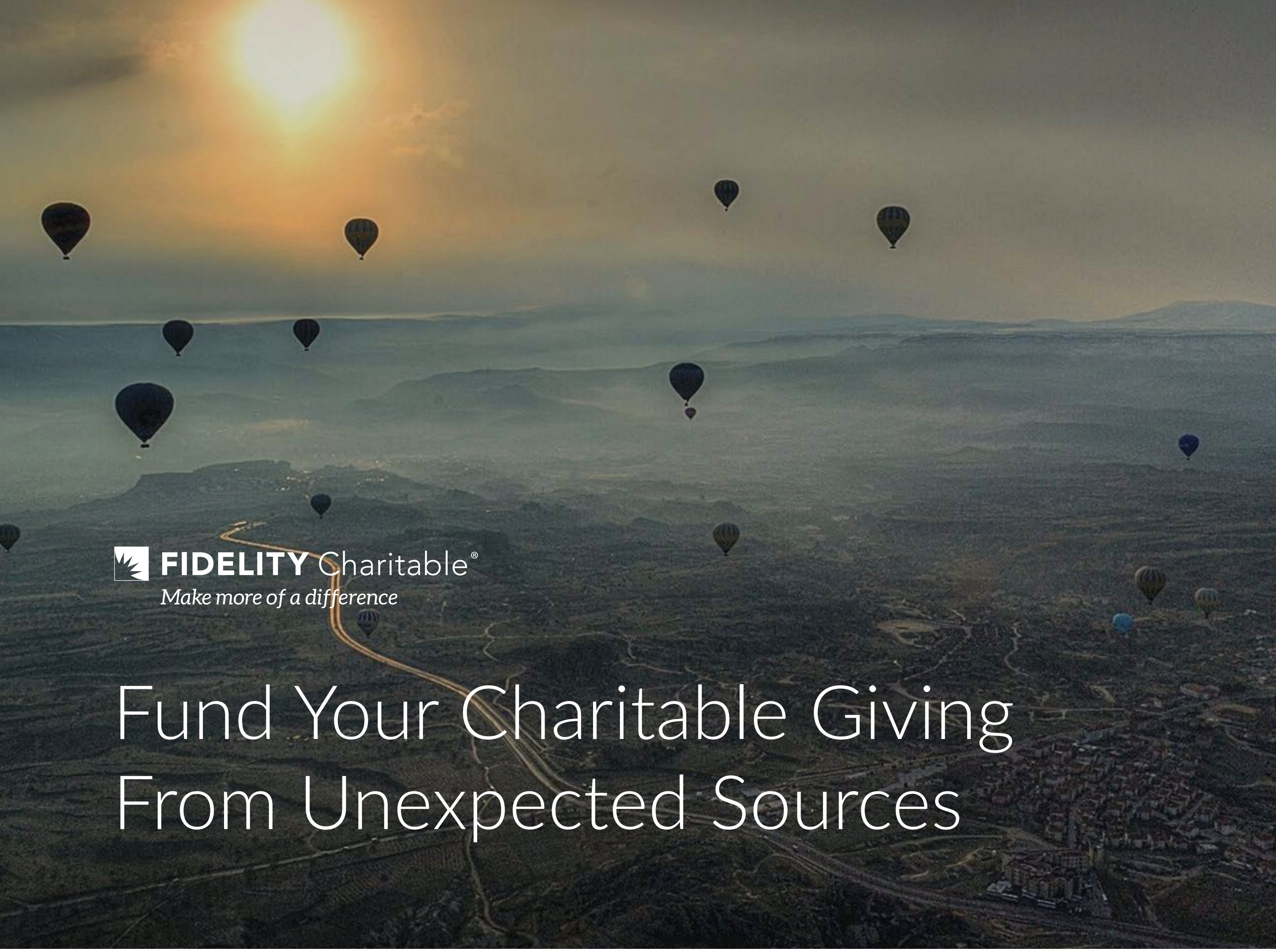


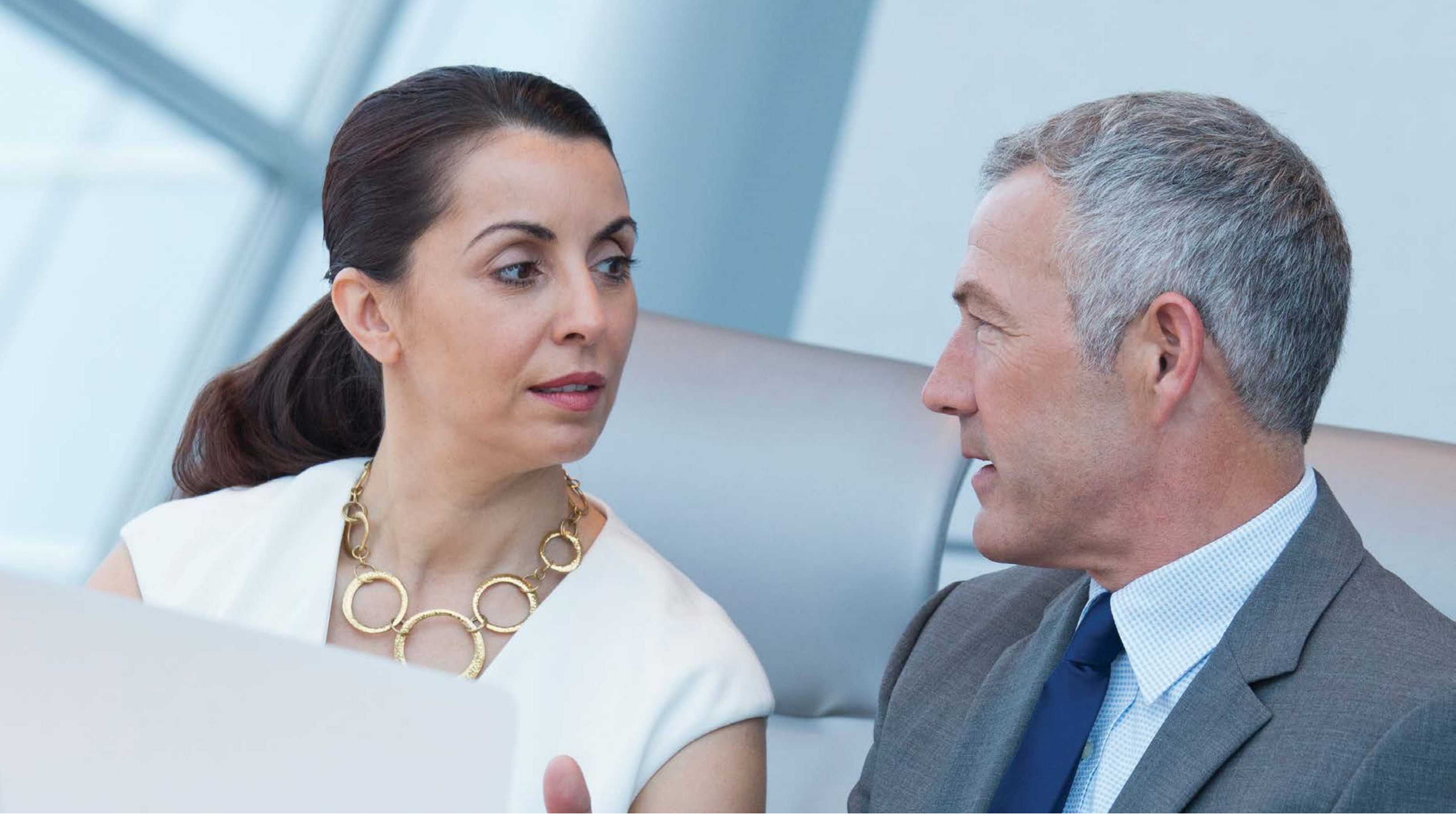
FIDELITY Charitable®

Make more of a difference

Fund Your Charitable Giving From Unexpected Sources

Charitable donations of assets such as privately held stock can potentially help donors give more to charity, save cash, and lower taxes, all at the same time.

What's Inside



Harnessing the Power of Appreciation

While most charitably minded individuals spend a lot of time choosing the causes they want to support, many overlook basic financial planning fundamentals that could help them give more to these charities. The majority of charitable contributions are made by cash or check. Depending on the particular financial situation, cash can be the least beneficial method of giving—for both the donor and the charitable recipients. This is particularly true when there are other appreciated assets to choose from. For instance, a donation of appreciated assets held for more than one year may more effectively fund giving while resulting in additional tax efficiencies. Appreciated publicly traded securities can certainly be a great asset to donate, yet many people also have non-cash assets in their portfolio with even greater unrecognized appreciation that could be used for charitable purposes.[1]

These seemingly illiquid assets can include privately held business interests (e.g., C corp and S corp shares, and limited liability company and limited partnership interests) and other capital gain investments. Donations of complex assets owned for more than one year are generally entitled to a fair market value (FMV) deduction, and donors may be able to eliminate capital gains taxes.[2]

However, giving cash is often reinforced by charities. Beyond cash, some charities ask for publicly traded securities and can facilitate those donations. Rarely, however, do charities ask for non-cash assets such as private business interests. The fact that charities don't ask should not stop donors and their advisors from considering the most tax-efficient choice to fuel philanthropy.

Donating to a charity that has in-house proficiency and experience accepting illiquid assets makes the process significantly easier. Consider working with a charity with this expertise that has a donor-advised fund (DAF) program. A DAF provides donors with the opportunity to work with a single charitable organization, make one donation, and then recommend grants from the proceeds of the sale of the donated non-cash asset to any number of qualified public charities, on the donor's timetable.

[1] Assets held for more than one year are generally deductible at fair market value, up to 30% of adjusted gross income.

[2] Fair market value is determined by an independent qualified appraisal.

Examples of Thinking Differently

Advantages of Donated Securities Over Cash Proceeds

When donating appreciated securities owned for more than 12 months to charity, rather than selling the securities first and then donating the after-tax proceeds, donors will generally be able to take a fair market value tax deduction and eliminate taxes on the capital gains, thereby providing a larger donation to the charities they support.

Outlined below is a hypothetical example showing the advantages of donating a long-term appreciated security, as compared to selling the asset and donating the cash proceeds. In this scenario, the donors, Matt and Veronica:

- Are in the 37% federal income tax bracket; and
- Have an asset that has an FMV of $450,000 that includes unrealized gains of $150,000, which could be subject to a 20% capital gains tax and a 3.8% Medicare surtax.

Selling vs. Donating Matt and Veronica's Security

Value of the security[3]

$450,000

Original cost of the security: $300,000[4]
Federal long-term capital gains tax rate: 23.8%[5]

Sell the security, donate the proceeds	vs.	Donate the security
$35,700	Long-term capital gains tax paid	$0
$414,300	Charitable contribution	$450,000

Reduced their tax obligation by: **$13,209[6]**

Additional amount dedicated to charity: **$35,700**

[3] *Amount of the proposed donation is the fair market value of the appreciated security held more than one year that Matt and Veronica are considering donating.*

[4] *The total Cost Basis of Shares is generally the amount of money you have invested in the shares of a particular fund or individual security. It represents the basic dollar amount that, when compared to the price at which you sell your shares, tells you how much of a capital gain or loss you have realized.*

[5] *This assumes all realized gains are subject to the maximum federal long-term capital gains tax rate of 20% and the Medicare surtax of 3.8%. This does not take into account state or local taxes, if any.*

[6] *Assumes no unrelated business taxable income and the top ordinary income tax rate of 37% for valuing charitable deductions. The reduced tax obligation of $13,209 was calculated by comparing the tax benefit of a deduction of $450,000 at 37% versus a deduction of $414,300 at 37%. It does not account for any state and local taxes or alternative minimum tax.*

Giving in Advance of a Business Sale or Transition

Some donors make charitable donations in conjunction with the sale of a business or another investment. In these cases, they gift to a charity that accepts donations of privately held C corp and S corp stock, limited partnership interests, limited liability company interests, and publicly traded stock. Consider Michael, a business owner who is contemplating the sale of his private family-owned construction company. He is interested in giving some of the sale proceeds to charity. Michael is the founder, CEO, and majority stockholder of the company, which is taxed as a C corporation.

Michael chooses to donate 10% of his ownership interest to a public charity with a DAF program. In this instance, he can potentially maximize his tax benefits by donating shares of the business prior to the sale of the business. By donating the stock prior to the sale, Michael is not subject to capital gains taxes on the proceeds received by the charity if the company is eventually sold. If the company does eventually sell and Michael has to pay taxes on his remaining ownership interest, he is entitled to a charitable tax deduction equal to the FMV of the shares.[1] This charitable deduction offsets the gain from the sale of his remaining interests. Had Michael gifted his shares to a private foundation, he would have been entitled only to a deduction equal to the lower of the cost basis or the FMV.

When evaluating the sale of a closely held business or the partial sale of non-cash assets, donors should:

- Discuss strategies and options with their advisor and in-house experts at the public charity
- Stay mindful of timing considerations
- Review governing documents to verify transferability, leaving time in case documents need to be amended
- Consider the need to pay for and obtain an independent valuation to substantiate their tax deduction

Outlined below is Michael's example, showing the advantages of contributing a portion of his business to a public charity that sponsors a DAF, as compared to selling the business and donating the cash proceeds.

Selling vs. Donating Michael's Business

Value of business[7]

$20,000,000

Value of shares donated: $2,000,000
Federal long-term capital gains tax rate: 23.8%[8]

Sell the business shares, donate the proceeds	VS.	Donate the business shares
$476,000	Long-term capital gains tax paid	$0
$1,524,000	Charitable contribution	$2,000,000

Reduced his tax obligation by: **$176,120**[9]

Additional amount dedicated to charity: **$476,000**[10]

[7] As determined by a qualified appraisal.

[8] This assumes all realized gains are subject to the maximum federal long-term capital gains tax rate of 20% and the Medicare surtax of 3.8%.

[9] Assumes no unrelated business taxable income and the top ordinary income tax rate of 37% for valuing charitable deductions. The amount of $176,120 represents the difference between the value of the tax deduction for the donation of the shares versus the net proceeds from the sale of the shares. It does not account for any state and local taxes or alternative minimum tax.

[10] This example assumes that the donor has an adjusted gross income of at least $6.7 million.

Recognizing When the Time Is Right

There are some times when donating non-cash assets may make the most sense. For example, when donors are facing a high-income tax year, their advisor may recommend donating these non-cash assets to offset the tax burden. Additionally, when experiencing a life-changing event (such as the sale of a business, a transition to a new job, or inheriting part of an estate), donors may choose to divest themselves of shares of these types of assets. Finally, when considering a larger gift or a long-term donation strategy, donors may be better able to plan and maximize the amount they can contribute to charities over time by donating non-cash assets to a charity with a donor-advised fund program.

Events that may provide the opportunity to make a non-cash charitable donation: a high-income tax year, the sale of a business, a transition to a new job, or inheriting an estate.

Final Thoughts

According to a study of charitable donors, only half of the people surveyed had specifically discussed charitable giving with their advisor.[11] Yet advisors are a great resource for these conversations and technical considerations. Not only can advisors help educate donors on the tax benefits and implications of donating non-cash assets, but they can have this conversation in the context of their clients' overall portfolio—helping them build a smarter, holistic financial plan.

The Fidelity Charitable® website (FidelityCharitable.org) has a wealth of information to support donors and their advisors in assessing appropriate assets and developing and executing charitable strategies. In addition, highly experienced staff are available to offer planning advice and guidance in the early stages of a donor's decision-making. For those choosing to donate complex assets, the in-house Complex Assets Group can help facilitate illiquid asset contributions. And, of course, the team is able to lead the charitable donation process from end to end as needed.

[11] *2021 Fidelity Charitable Thought Leadership Study.*

About the Author

Nathan Daley is vice president and head of complex assets at Fidelity Charitable, an independent 501(c)(3) public charity that has helped donors support more than 406,000 nonprofit organizations with nearly $84.5 billion in grants. Nathan and his team work directly with donors, their advisors, and corporate and business lawyers to facilitate the charitable contributions of non-publicly traded assets to achieve the most favorable tax treatment with the greatest charitable impact. Prior to joining Fidelity Charitable, Nathan was a corporate and securities attorney. His practice focused on representing public and private companies, private equity funds, and business owners in connection with mergers and acquisitions, public and private offerings of debt and equity securities, entity formation, joint ventures, corporate governance matters, and drafting and negotiating complex commercial agreements. Nathan received a bachelor's degree in business administration with a concentration in finance from the University of Texas at Austin, a master of laws degree in taxation from the Georgetown University Law Center, and a juris doctorate from Texas Tech University School of Law.

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