Overview

Complex assets: The key to smart, tax-advantaged giving

If you're like most people, you hold a very small portion of your total wealth in cash. Instead, your wealth is mostly made up of "complex" assets, such as real estate, shares of stock, business interests, collectibles, fine art, and so on. In fact, it's estimated that 95-99% of Americans' wealth is held in noncash assets.

What are "complex" assets?

- Private company stock
- Restricted stock
- Partnership interests
- Non publicly traded stock
- Hedge fund interests
- Insurance policies
- Stock options
- Foreign-traded stock
- Real estate
- Art
- Collectibles
- Trusts
- Intellectual property
- Commodities

Still, when we think about donating to charity, we often think of giving from our cash holdings. Or, if we do look at our other assets, we think we should sell them and then donate the proceeds to charity.

The problem is, while donating cash is easy, it's not typically the most strategic way to give, and selling complex assets before donating them could set you up for considerable capital gains tax hits. Furthermore, while you can protect yourself from capital gains taxes by giving complex assets directly to a charity, that puts the responsibility to liquidate the assets on the charity (which might not be equipped to handle this sort of transaction), and possibly puts tax burdens on the charity.

There is a better way: Donate your complex assets to a donor-advised fund.

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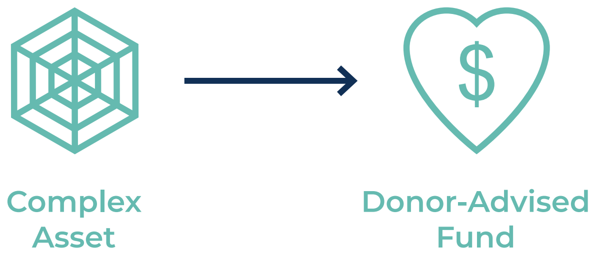
Donating complex assets to a donor-advised fund



As a specialized 501(c)(3) public charity, a donor-advised fund can receive, process, and liquidate your complex assets in a way that provides you with an immediate tax deduction, protects you from capital gains taxes and makes things easier on you.

Think about it: If you were to sell the assets yourself, you would have to pay taxes on the increased value of the assets, meaning you would have less to donate to charity and a reduced charitable tax deduction. Donating the assets themselves yields some hefty benefits: You get an immediate fair-market-value charitable tax deduction, and you avoid the net investment income tax (NIIT), state income taxes, and capital gains taxes. Plus, because the donor-advised fund takes on the responsibility for processing and liquidating the assets and then distributing proceeds to charities, what could be a complicated process for you becomes a focused transaction.

Consultants work with donors and their professional advisors on certain types of assets that have requirements added to them (for example, donated real estate must be debt-free, the tax benefits from certain assets rely on their appraised value, and so on), so they're able to reach the donor's goals in the most cost-effective and tax-efficient way.

As an added benefit, as a donor to a donor-advised fund, you retain an ongoing ability to make recommendations about which charities receive gifts from the fund, ensuring a long-term role in the distribution of charitable resources.

All of this means, you could do a lot of good – for yourself and for the causes you hold dear – by not just writing checks to charity but by tapping the charitable potential of the more than 90% of your holdings likely held in non-cash assets.