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PRIVATE WEALTH

Integrating *Complex Assets* into Your Giving Strategy

Donating illiquid assets to a nonprofit can provide substantial tax benefits while allowing you to meet your philanthropic goals.

Gifting Complex Assets

As part of your estate planning, you want to have sufficient assets to cover not only debts, expenses and maintenance obligations but also charitable contributions. For individuals and families of significant wealth, as well as business owners, this could include gifting complex assets to a nonprofit, especially those assets that have appreciated over time. Complex assets may be donated through a variety of charitable strategies, from donor-advised funds (DAFs) and private foundations to charitable trusts.

Gifting complex assets can be challenging: There may be more efficient ways to donate, determining fair market value or asset appreciation may be difficult and not all charities have the internal resources, capacity or expertise to conduct due diligence or effectively liquidate an asset. Work with your tax and wealth advisors if you are considering such a gift.

Complex assets are non-cash and non-publicly traded securities, including cryptocurrency, real estate, artwork and shares of privately held businesses.

Tax Considerations

To help minimize capital gains taxes, you may consider donating the asset directly to a public charity. If you have owned the asset for more than a year, you may be able to take a charitable income tax deduction equal to the fair market value of the donated asset. You may deduct up to 30% of your adjusted gross income in the year the gift is made and carry the remainder forward for up to five additional years. Some donors may choose to give just a portion of an asset to a charity, but there are specific rules that you should discuss with your tax and wealth advisors in advance.

Another option for holders of certain complex assets is to sell the asset on a public exchange, then donate the proceeds to a charity. However, this action will likely trigger capital gains taxes. Further, the charitable tax deduction can be taken only for the amount of the post-sale and post-tax cash contribution.

Be mindful that not all illiquid assets are created equal from a tax standpoint. Some complex assets carry a more favorable tax treatment than others, especially since certain factors may cap the tax benefit. For instance, the charitable deduction associated with a donation of artwork or other tangible personal property is typically limited to the lesser of fair market value or the donor's cost basis in the asset. However, the allowable deduction can be much greater if the tangible asset is donated to a nonprofit for a "related use," such as donating artwork to an art museum to display as part of its charitable mission.

Timing

Timing is also an important consideration. Gifts of complex assets often require legal work in advance, so be sure to allow as much lead time as possible. If you are considering selling a complex asset such as a closely held business or piece of real estate, you can potentially achieve significant tax savings by donating an interest in that asset to charity prior to the sale. Again, timing is crucial because if the charitable gift is completed too far along in the sale process, the IRS may deem the donor to have realized income intended for charity, which can substantially reduce tax savings.

The DAF Option

Donating illiquid assets to a DAF has substantial benefits:

Asset Liquidation

Many DAF sponsors are equipped to accept donations of complex assets that your favorite charities might not be willing or able to accept directly. A DAF sponsor will perform due diligence on potential gifts of complex assets, and if accepted, the sponsor will typically sell the asset as soon as possible to provide liquidity for grantmaking to the donor's preferred charities. Contributions of appreciated assets held longer than one year generally qualify for a charitable deduction at fair market value, and the donor can avoid realization of capital gains when the asset is sold within the DAF.

Tax Liability

Gifting an asset to a DAF provides a tax advantage that preserves funds for charitable grantmaking. A business owner who donates shares can reduce a future capital gains tax liability when they wish to sell their shares, or when the company is sold, merged or goes public. Generally, gifts of complex assets to DAFs receive much more favorable tax treatment than gifts of the same assets to private foundations.

Estate Planning

Donating illiquid assets to a DAF may allow donors to align their family values with their philanthropic goals, while simplifying their estate administration. Moreover, many DAF sponsors allow donors to appoint additional advisors and successors to the DAF so that it can serve as a multigenerational giving vehicle.

> A donor-advised fund is a philanthropic vehicle that allows you to make charitable contributions generally eligible for immediate tax deductions, then recommend grants to your preferred charities over time.

Partner with Professionals

Gifting complex assets can be complicated; however, they can make a difference for both the nonprofit receiving it as well as your own tax liability. Discuss your philanthropic and wealth planning goals with experienced professionals to ensure you understand all your options.

> For more information on gifting complex assets and other charitable giving options, please contact your Glenmede Relationship Manager.

[1] DAF Spotlight: Complex Assets. National Philanthropic Trust. https://www.nptrust.org/annual-reports/daf-spotlight-complex-assets/. (accessed Dec. 12, 2023)