Vertermont Community Foundation
INSIGHT HUB

Actionable Insight To Inform Your Giving

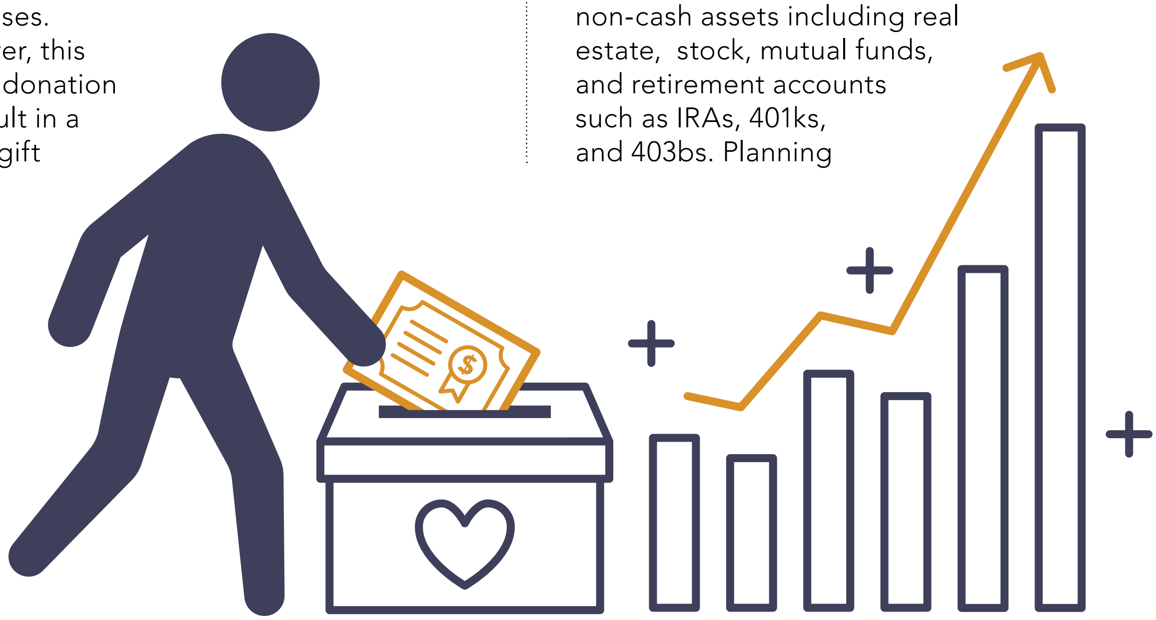
Cash is not king

Maximize charitable giving with non-cash assets

The convenience of debit cards, credit cards, and mobile payment apps means fewer people are pulling wads of cash from their wallets to buy groceries, gas up their cars, or pay their bills. Only 19 percent of transactions were made with cash in 2020, down seven points from 2019, according to a Federal Reserve study on consumer spending habits.

But when it comes to philanthropy, the cash-is-king mindset is still strong. So strong that some donors are missing out on an opportunity. They don't realize that they can give non-cash assets such as real estate, publicly-traded stock, and in certain circumstances, shares of closely-held or family-owned businesses. Moreover, this type of donation can result in a bigger gift for the recipient and a better tax deduction for the donor. Who gets credit for this win-win scenario? The Internal Revenue Service. The rules at the IRS often allow individuals to avoid capital gains tax if they give a long-held asset directly to charity. Conversely, donors who sell an asset with the intention of giving the cash proceeds to charity can easily face a tax bill equal to 20 percent of the profit. By giving directly, the donor avoids the tax bite, the charity receives the asset at full value, and the donor qualifies for a tax deduction on the larger amount.

This approach has even more potential given that most people don't have all their assets sitting around in a checking account. The majority of wealth in the U.S. is held in non-cash assets including real estate, stock, mutual funds, and retirement accounts such as IRAs, 401ks, and 403bs. Planning



is key to unlock the potential of these assets for charitable giving.

Non-cash assets can be used to open a donor advised fund (DAF) or contribute to an existing one at a sponsoring charitable organization. To work through the possibilities, consult with a philanthropic advisor. Keep in mind that some small nonprofits do not have the administrative capacity to process gifts of stock, real estate, or that gorgeous abstract painting Aunt Charlotte bought in 1950 that is now worth $800,000. More sizable organizations such as the Vermont Community Foundation are set up to accept a range of non-cash gifts including publicly traded stock, private business interests, real estate, and retirement funds. Philanthropic advisors at the Foundation can help individuals of varying net worth chart out a strategy that aligns with their philanthropic passions and conforms with IRS rules.

Sometimes it takes a bit of ruminating to understand how a non-cash asset could help feed the hungry, shelter the homeless, or raise the curtain at a local theater.

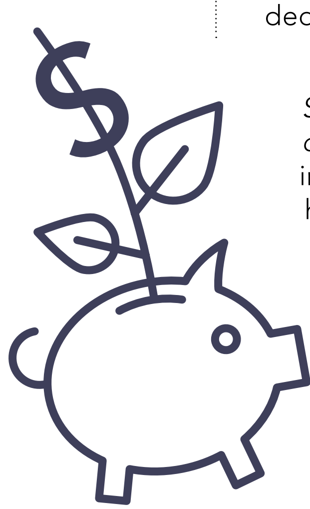
To bring the possibilities to life, let's look at some hypothetical scenarios.

Giving with stock

Susan, a Vermont physician's assistant who is close to retirement, bought stock for $10,000 twenty years ago. It has appreciated and is now worth $100,000. She has no children. The balance in her retirement account is $1 million and she will receive a $65,000 annual pension when she retires. She wants to give the stock to charity, specifically to support research into breast cancer, which took the lives of her sister and mother. She sells the stock and pays $18,000 in capital gains tax. After paying the tax, she gives the remaining $82,000 to her donor advised fund at a charitable organization and takes a tax deduction on that amount.

Or:

Susan could set up this transaction differently. Susan could give the $100,000 in stock directly to her DAF. She consults her accountant and philanthropic advisor, who are well versed in the details of IRS Topic No. 409 (on capital gains and losses). The advisors determine that Susan would not owe capital gains tax if she gave the



appreciated stock directly to her DAF. This approach would mean $18,000 more for charitable purposes and a tax deduction for Susan on $100,000 rather than $82,000.

Giving with real estate

Another scenario might involve real estate. Let's say Marcus owns a primary home in Vermont and a vacation condo in Arizona that his grown children, who are successful professionals, don't want. Marcus is a retired school principal, lifelong saver, and widower who has other assets to leave for his family. He would like to expand his donor advised fund, where his giving so far has focused on college scholarships and social justice. He could sell the condo, which he bought for $195,000 thirty years ago and has soared in value to $995,000, and then contribute the proceeds to his donor advised fund.

But based on his financial situation, Marcus determines that he would owe a 20 percent capital gains tax on the profit from the sale of the condo, which is a second home. He looks at the numbers with his accountant and philanthropic advisor and realizes the capital gains tax could trim approximately $120,000 off his potential gift.

So, with his children cheering him on, Marcus gives the condo directly to his DAF at the charitable organization that sponsors it. He never envisioned being able to make such a substantial gift and feels proud to think about the additional scholarships and equity programming he is supporting. The whole family celebrates this legacy donation.

Giving with a family business

Another scenario applies to a Vermont family with an automobile sales and repair business that over three decades has grown in value beyond the estate tax exemption. The owner, Denise, would like to avoid estate taxes when she passes the business on to her son and daughter, who work long hours in the enterprise. She would also like to increase her charitable giving to nonprofit childcare organizations, having seen the need for quality care both for her generation and her children's generation.

After consulting with her tax attorney and a philanthropic advisor, she decides to gift a 20 percent interest in the business to a fund at a charitable organization set up to administer complex gifts. It translates to a sizable sum and creates new childcare slots for youngsters like her own grandchildren whose parents need good care for their families to thrive. Denise feels happy about creating a gift that she didn't realize was possible a few years back.

Giving with retirement funds

Richard is 73 and semi-retired from a successful career as an engineer. He and his wife Janelle, a 74-year-old retired accountant, have a large portfolio of assets including a first home in Vermont and a second home in Maine, stocks, cash, and multiple retirement accounts with high balances. Their estate is well-organized, and they will leave their grown son ample resources. They would like to increase their philanthropic giving to career training and decide to use their individual retirement accounts (IRAs). Under the law, people who are 70 ½ can give up to $100,000 every year directly from an IRA to a charitable organization without owing taxes, in what is known as a qualified charitable distribution. Janelle and Richard transfer the funds in that manner and estimate that the pre-tax gift amounts to about 24 percent more. They also receive a larger tax deduction.

These and other potential scenarios can become reality with planning. A philanthropic advisor can help individuals sort through the potential for giving based on the full picture of their financial holdings, including non-cash assets that might go further than cash.

To learn more about giving with non-cash assets, connect with the philanthropy team at the Vermont Community Foundation.

Ruth Henry
Senior Philanthropic Advisor

Martha Trombley Oakes, CAP®
Senior Philanthropic Advisor

Emilye Pelow Corbett, CAP®
Senior Philanthropic Advisor and Planned Giving Advisor

Stacie Fagan
Vice President for Philanthropy

Elisabeth Marx
Senior Philanthropic Advisor

Jane Kimble
Philanthropy Associate

For additional recommendations about giving in Vermont, please reach out to our Philanthropy Team at philanthropy@vermontcf.org or 802-388-3355 opt. 5.

If you found this information useful, find similar content at vermontcf.org/insighthub
The heart of the Community Foundation's work is closing the opportunity gap—the divide that leaves too many Vermonters struggling to get ahead, no matter how hard they work. Learn more about the Community Foundation's philanthropic advising services or opening a donor advised fund at vermontcf.org.