DAF Insights

Empowered Giving through Non-Cash Contributions

WHEN MANY PEOPLE THINK OF CHARITABLE GIVING, they think of receiving a fundraising letter and either mailing a check or using a credit card to support their favorite nonprofit. While traditional checkbook philanthropy is alive and well, it is not the most tax-effective strategy; in fact, donating cash is widely considered “the most expensive way to give.” A savvy donor may be able to gift non-cash assets to preserve more value for charitable causes, save on taxes before they are incurred, and position charitable assets for growth.

One way to unlock the charitable potential of non-cash assets is by using a charitable vehicle like a donor-advised fund (DAF). DAF sponsors are proficient in accepting and then liquidating non-cash assets, to make them available for grantmaking now and in the future. DAFs also offer the greatest possible tax benefits for contributions of appreciated assets.

With the guidance of a trusted advisor like you, along with the support of a DAF sponsor like National Philanthropic Trust (NPT), a donor who contributes appreciated non-cash assets held for longer than one year can, in most cases:

- Claim a fair-market-value deduction*
- Avoid the recognition of capital gains
- Deduct up to 30% of their AGI

INSIDE

Your clients may have assets that hold great charitable opportunity.

based on a qualified appraisal

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Contributing Publicly Traded Securities

Donations of publicly traded securities are the most common type of non-cash contributions. They are also the easiest and fastest to contribute to charity. To contribute publicly traded securities to a DAF, a donor can simply initiate a transfer to the DAF sponsor's brokerage account.* The DAF sponsor will liquidate the shares and credit the proceeds to the donor's DAF. With the help of their financial advisor, the donor can then recommend an investment strategy for the assets in their DAF, and any investment growth will be tax-free. As long as the shares are held for more than one year, a direct contribution to a DAF is generally eligible for a fair-market-value tax deduction, and will not incur capital gains tax.

**NOTE: The process is different when contributing securities that are subject to restrictions, including securities being contributed by a control person of the issuer.*

Contributing Restricted and Control Stock

Executives who hold restricted or control stock as part of their total wealth portfolio may overlook these assets when developing their charitable strategy. However, if the shares have appreciated considerably and have a low cost basis, these can be very tax-advantageous assets to contribute. With a DAF, a donor can convert these assets into philanthropic capital.

Executives who hold restricted or control stock as part of their total wealth portfolio may overlook these assets when developing their charitable strategy.

To start a contribution, the donor needs to provide information about the acquisition of the shares, and the DAF sponsor will coordinate the process of determining whether the shares are subject to transfer or sale restrictions. If the shares are eligible for transfer but also subject to restriction, the DAF sponsor's legal team will work with the issuer's counsel to have the restrictive legend removed; the donor can then transfer the shares during an open trading window.

Consider if: Your client is a C-suite executive, founder, board director, or early-stage investor.

CASE STUDY:

Funding the Arts with Restricted Stock

A donor who founded a sneaker company 10 years ago had enjoyed considerable success, and her stock had appreciated significantly. She had recently become involved in a local arts initiative in her hometown and wanted to give back, but learned that because of the restrictions on her shares, the small organization was not set up to accept her most highly appreciated asset.

THE SOLUTION:

After the donor answered a questionnaire about the asset, NPT's legal team contacted her company's in-house counsel who confirmed that the donor was permitted to transfer the stock. The donor transferred the stock during a limited open trading window and received a gift receipt stating the day of transfer. The donor avoided substantial capital gains tax on the asset, and was able to use some of the proceeds to fund a neighborhood beautification initiative to paint murals in the city where her flagship store is located.

Contributing Closely Held Business Interests

When planning on selling a business like an S-corporation, C-corporation or LLC, some donors hope to sell as quickly and easily as possible and will determine how to handle the proceeds later. However, if a donor incorporates a charitable contribution into their strategy from the outset and contributes prior to sale, they will be eligible to avoid capital gains tax on the assets they contribute.

The contributed assets are liquidated as part of the sale and made available in their DAF for grantmaking. Once in the DAF, the assets can be invested with any investment growth being tax free. Timing is key in this scenario: If the negotiation with the buyer has advanced to the point where the IRS considers it a pre-arranged sale, the donor may be considered liable for any gain on the sale.

Special Case: Pre-IPO Business Interests

If a donor chooses to make a charitable contribution of a business interest before their company's initial public offering (IPO), rather than selling the shares as part of the IPO, they may stand to avoid significant capital gains tax—especially if the sale outperforms expectations. This can help them make even more money available for grantmaking for the causes they support. What's more, if the donor can contribute early enough that the DAF sponsor can participate in the IPO, they can avoid the price risk that comes with waiting out a lock-up period.*

Consider if: Your client's company is about to go public and they stand to realize significant gains.

Consider if: Your client is planning on selling or transitioning ownership of their business.

CASE STUDY:

From a Leasing Company to a New Lease on Life

A donor owned a trucking company and wished to contribute $14M in shares of S-corporation stock to support a work-readiness program for formerly incarcerated people.

THE SOLUTION:

The donor was first advised that NPT would become a shareholder at the moment that NPT gained ownership of the assets. Therefore, all income derived by NPT as a shareholder would be treated as unrelated business taxable income (UBTI) and subject to tax, and any later gains on the sale would be subject to unrelated business income tax (UBIT) as well. The donor made a contribution to NPT's affiliate, NPT Charitable Asset Trust (NPT CAT), a public charity in the trust form which pays UBIT on long-term capital gains at a substantially lower effective tax rate than public charities in the corporate form.

After the assets in the new NPT CAT DAF were liquidated, 20% of the sale proceeds were held in reserve and invested in a money market fund for payment of the UBIT obligation. Once the tax was paid, the restriction was lifted on the balance of funds remaining. In the meantime, the donor was able to recommend grants from the unrestricted portion of the liquid funds to qualified charities. This included the work-readiness program he wanted to support, which offers apprenticeship opportunities for formerly incarcerated individuals.

**Limitations on IPO participation may apply.*

Contributing Hedge Fund Interests and Private Equity

As much as 75% of the total compensation for hedge fund managers and principals can be variable pay, meaning that their tax liability can be subject to the same variability. However, by contributing hedge fund limited partnership interests to a DAF, a donor is eligible for a fair-market value deduction—whereas the same contribution to a private foundation would only yield a cost-basis deduction.

This strategy helps preserve more money for grantmaking. To make a contribution of an LP interest, the donor first provides organizational documents to complete operational due diligence, which can take 4-6 weeks. During this process, the DAF sponsor will review features such as redemption terms and lock-up periods. The DAF sponsor usually requires an up-front cash contribution to ensure sufficient liquidity to cover operational due diligence costs.

Special consideration: If the donor is a principal, the LP interest must be in a no-fee share class to ensure the donor is not receiving any direct or indirect financial benefit.

Consider if: Your client manages a hedge fund or is a general partner in a private equity firm, especially in a high-income year.

CASE STUDY:

Investing for Growth with a Hedge Fund Contribution

The principal of a hedge fund and her spouse wanted to establish some structure for their philanthropy. After a particularly high-income year, the couple wanted to use a percentage of their LP interests to establish a new charitable vehicle.

THE SOLUTION: The couple provided NPT with all organizational documents, the limited partnership agreement and offering memorandum related to their interest in the fund. They made an additional cash contribution to the DAF to cover administrative fees, due diligence and UBIT. After completion of the operational due diligence by an independent third party, the couple transferred the interest to NPT. Because NPT has the ability to hold a concentrated position in a single asset as long as NPT's investment does not exceed 10% of the total fund, the couple was able to recommend that the majority of their DAF assets remain invested in the hedge fund. Moreover, because the donor was the principal of the fund, the fund agreed to waive all fees associated with the investment in order to avoid the imposition of penalty excise taxes. The donors' DAF assets enjoyed tax-free growth, which helped them fund a recurring grant toward a capital campaign to construct a new building at the college where they first met.

Contributing Real Estate

For developers, investors, or people seeking to sell a building, real estate can be an untapped charitable resource. Through a contribution of real estate, a donor can be eligible to claim a fair market value tax deduction for the appraised value of the property. Especially for highly appreciated properties, this is a good strategy to avoid what could otherwise result in a hefty capital gains tax on a standard sale.

Consider if: Your client is selling a marketable, debt-free property.

Contributing Fine Art, Collectibles, or Other Tangible Personal Property

The capital gains tax rate assessed on tangible assets such as collectibles can be higher than other capital assets, depending on the type of assets and how they were originally acquired. Contributing these assets to a DAF can help donors avoid the recognition of capital gain. A donor's charitable deduction for a contribution of tangible personal property to a DAF will be limited to the lesser of cost-basis or fair-market value.

Consider if: Your client is conducting estate planning, or downsizing to prepare for retirement.

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Contributing Cryptocurrency

In most cases, cryptocurrency is taxed as a capital asset. When the price of Bitcoin or other cryptocurrencies hits a market high, this makes them subject to hefty capital gains tax bills at the time of sale. Contributing cryptocurrency to charity can help a donor avoid capital gains tax and earn a fair-market value deduction, if it has been held longer than one year. However, because the asset is so specialized, most nonprofits are not yet set up to receive direct contributions of cryptocurrency. Using a DAF, a donor can contribute when the assets are highly appreciated to lock in their value for future grantmaking to any qualified charity. To contribute cryptocurrency, the donor will answer questions about the acquisition of the asset; sign a prepared affidavit; then transfer the asset using a dedicated wallet address. The DAF sponsor will liquidate the cryptocurrency as soon as possible.

Consider if: Your client's Bitcoin, Ethereum, or other cryptocurrency hits high points on the market.

CASE STUDY:

Digital Currency for Digital Literacy

The CEO of an e-commerce company had experienced significant gains in his Ethereum holdings, with pricing at an all-time high. He wanted to preserve some of the value for charitable giving and to donate to STEM programming for public schools.

THE SOLUTION:

The donor contacted NPT because of their expertise in accepting a wide range of cryptocurrencies. First, he answered a series of questions about the source of his cryptocurrency holdings. NPT prepared an affidavit for the donor to sign attesting that the currency used to purchase the cryptocurrency was obtained through legal methods, and then provided a unique digital wallet address for the donor to transfer the Ethereum. The donor received a gift receipt with the date of the contribution, and NPT liquidated the Ethereum as soon as possible to make the funds available for grantmaking in the donor's DAF. Later, the donor used the gift receipt to obtain a qualified appraisal for tax substantiation based on the value at the time of contribution. The donor now supports a program that provides laptops and coding lessons to students in underserved public schools.

Special Consideration for Complex Assets

For most non-cash assets that are not publicly traded, the DAF sponsor will provide a gift receipt that describes the asset contributed but does not assign a dollar value. The donor will need to obtain a qualified appraisal to substantiate the value of their tax deduction. The appraisal and its cost are the responsibility of the donor. It can be obtained any time from 60 days prior to the date of the donation until the date that the donor's tax return is due and filed, inclusive of any extensions.

The following chart describes NPT's contribution minimums for various types of assets.

NON-CASH ASSET CONTRIBUTION MINIMUMS	CONTRIBUTION MINIMUM
Real estate (residential and commercial)	$2,000,000
Alternative investments (hedge fund and private equity)	$1,000,000
Privately-held business interests (S-corporations or C-corporations)	$500,000
Tangible personal property (artwork and collectibles)	$250,000
Structured notes	$250,000
Restricted stock (including Rule 144/145)	$25,000
Cryptocurrency	$25,000
Foreign currency	$25,000

For most complex assets, a gift processing fee will be charged to cover the costs of due diligence. NPT will provide a good faith estimate of the fee before any costs are incurred.*

NPT's process for reviewing and accepting non-cash assets draws on years of experience in anticipating and responding to the challenges and complexities of these kinds of contributions. However, we design the process to be as easy and straightforward as possible for your client. While there may be due diligence and reporting required for the contribution, NPT handles all record-keeping and administration for the DAF once funded. One large contribution of non-cash assets has the potential to fund several future grants, depending on time and scope, and saves your client time and hassle.

When your client indicates their interest in contributing a complex asset, our team will follow up to discuss the due diligence process that is necessary prior to transfer. This may take the form of a questionnaire.

Getting Started

For 25 years, National Philanthropic Trust has been helping donors and trusted advisors like you achieve their charitable goals. We have longstanding expertise in converting non-cash assets to charitable capital; in fact, the majority of contributions we process take the form of non-cash assets.

Our expertise ranges from contribution processes to grantmaking strategy, so we can support you at every step of your client's charitable journey.

You can get started by visiting our website at nptrust.org to access a wealth of resources about giving with a DAF. To open a DAF, visit our secure donor portal at nptgivingpoint.org. To learn more, contact a member of our team today at (888) 878-7900 or at npt@nptrust.org.

**For more information, see our Illiquid Asset Contribution Guidelines.*

NPT does not provide legal or tax advice. This brochure is for informational purposes only and is not intended to be, and shall not be relied upon as, legal or tax advice. The applicability of information contained herein may vary depending on individual circumstances.