

Complex Assets and DAFs

When people think about charitable giving, they typically think first about giving cash. While that is arguably the simplest way to give, it presents a few problems that could affect a donor's giving capacity and impact.

The first problem: Most people have most of their wealth in "complex" assets: real estate, shares of stock, collectibles, fine art and so on. In fact, estimates suggest that only 1% to 5% of wealth is held in cash. As a result, accessing only cash for giving means accessing only a tiny portion of the donor's wealth.

Of course, the donor could just sell the assets and give the proceeds to charity, right? Well, that brings us to the second problem: Selling the assets means being subject to capital gains taxes, which effectively reduces the value of the gift.

So, what's the better option? Donating the assets directly to a non-profit and letting the nonprofit sell them and keep the proceeds. This allows the donor to dispense of the assets, support a cause or charity he or she believes in, and avoid capital gains taxes.

And now a third problem: When giving the assets to a charity, the donor is at once making a short-term and long-term commitment to how the funds will be used. He or she no longer has a say in how the proceeds from the gift are put to work.

THE SOLUTION: THE DONOR-ADVISED FUND

When faced with these problems, a Donor-Advised Fund (DAF) often proves to be a donor's best option. Not only can a DAF receive and dispose of assets – allowing the donor to avoid capital gains taxes on the proceeds of the sale – but they also can deliver additional tax benefits and allow the donor to remain involved in decisions about how proceeds are granted to charitable organizations.

Created by a public nonprofit specifically to receive a donor's gifts, a DAF allows the donor to receive an immediate charitable deduction for a gift and, although the assets of the DAF are no longer owned by the donor, the donor can still recommend investment strategy and the charities that benefit from the fund's growth. The ability to influence those choices remains with the donor as long as the DAF exists, and can even be passed on to future generations.

This process allows a donor to have both an immediate and long-term impact, as the value from the sale of the asset and interest earned on the proceeds can be distributed as grants over time.

Simply complex

How complex assets can be used for giving

Transaction One

Donor gives complex asset to nonprofit, receives tax benefits.

Transaction Two

Nonprofit sells asset to third party, adds value of asset to resources.

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