



Complex Assets

How to make contributions to a donor-advised fund



FOR PROGRAM STAFF



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Key takeaways



Many donors sell complex assets to make charitable contributions, which can generate large capital gains taxes.



Advisors can help their clients offset these capital gains taxes through donations of complex assets to a donor-advised fund (DAF).



Contributions of complex assets to a DAF allow firms to manage liquidated assets, which boosts the firm's assets under management.



Think outside the box with complex assets

It's estimated that 95-99% of Americans' wealth is held in noncash assets. Despite this, most donors aren't aware of the benefits of giving complex assets, and instead, choose to make charitable gifts in the form of cash. This often requires selling assets to make those gifts, but this can limit the benefits of giving and create large capital gains tax hits.

There's a better way: **Donate complex assets to a DAF.**



Benefits of a DAF

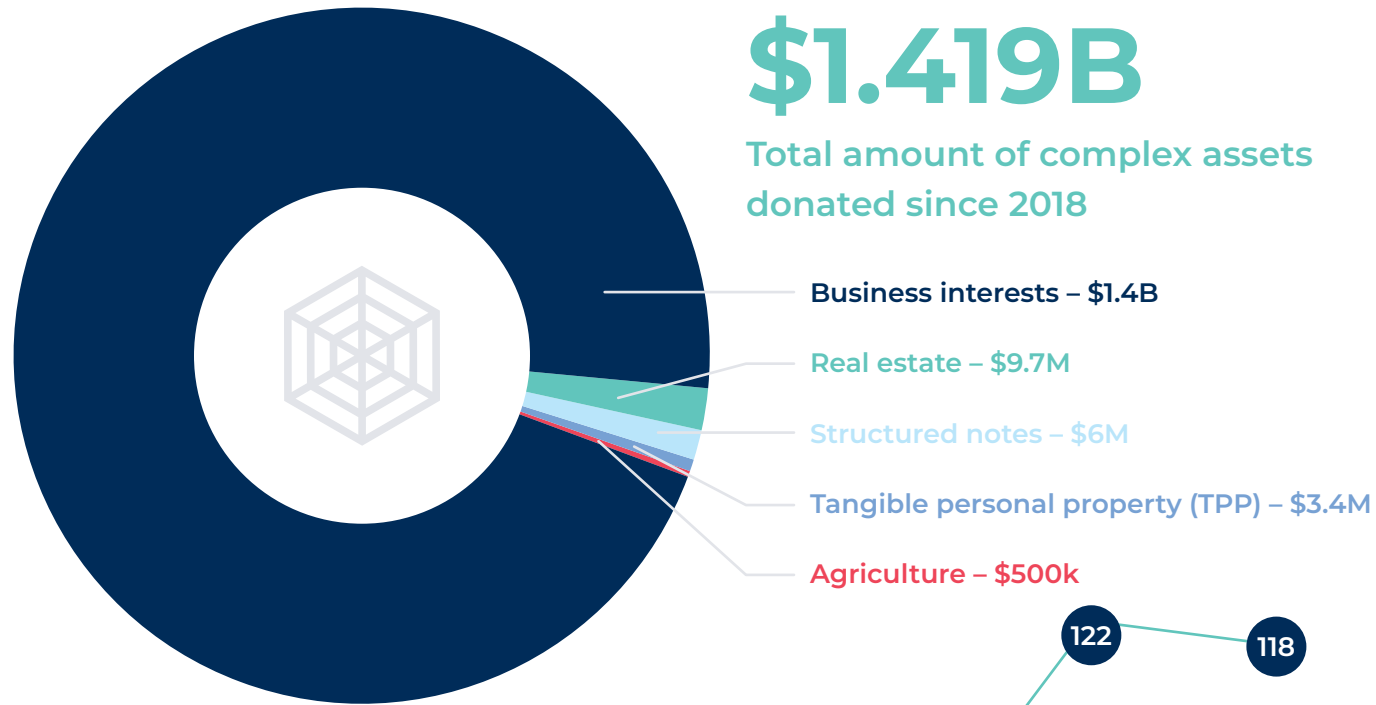
As a specialized 501(c)(3) public charity, a DAF can receive, process, and liquidate complex assets to provide donors with an immediate tax deduction, protect the donor from capital gains taxes, and allow financial institutions to manage assets.

Accepted donations of complex assets (by popularity)

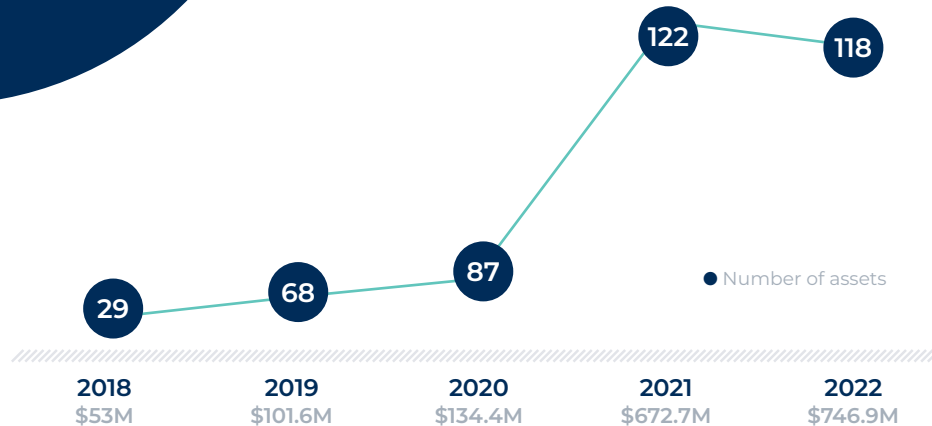
- Private company stock
- Restricted stock
- Partnership interests
- Non-publicly traded stock
- Hedge fund interests
- Insurance policies
- Stock options
- Foreign-traded stock
- Real estate
- Art
- Collectibles
- Trusts
- Intellectual property
- Commodities



Ren and complex assets: A history of expertise



421
Total number of complex assets donated since 2018



Types of alternative investments



1. Private equity fund
2. Venture capital
3. Hedge fund
4. Carried interest/profits interest



Gifts

Minimum \$500k;
20% liquidity in DAF



Investments

Minimum \$250k; 20% liquidity;
minimum account size \$1M*

Subject to excess business holdings, Renaissance Charitable Foundation (RCF) does not require immediate liquidation and may hold the position for the life of the fund.

Considerations

Donor

- Transferability
- Tax implications/deductibility
- Timing
- Contingent liabilities
- Appraisal requirements/substantiation

Charity

- Timing
- Contingent liabilities
- Tax exposure (UBTI)
- Excess business holding
- Disposition plan
- Valuation

* Alternative assets in each portfolio may be subject to limitations per account

Ren's complex assets team



Sales Team – Guides advisors to the best giving solutions for their clients.



Legal Team – Conducts due diligence reviews for each deal, to ensure that even the most complex transactions are executed as smoothly as possible.



Tax Team – Manages financial reviews, RCF tax preparation, and reporting.






Operations Team – Processes new account setup, contributions, granting, and correspondence with financial advisors and donors.



Gift type benefits at a glance

	Real estate	Business interests	TPP
Immediate charitable tax deduction	✓	✓	!
Unused charitable deduction due to annual AGI limitations can be carried forward for five years for individuals	!	✓	!
Not subject to estate taxes on gift	!	✓	!
Income tax charitable deduction up to 30% of AGI	!	✓	!
No capital gains tax	✓	✓	!
Capital gains tax rate up to 28%	!	!	✓

Gift type considerations

	Cost structure	Complexity level
<p>Real Estate*</p> <ul style="list-style-type: none"> • No binding sales agreement • No debt • Must be marketable 	Additional fees will apply	
<p>Business Interests (C-Corp, LP & LLC)</p> <p><i>Minimum gift: \$500,000</i></p> <ul style="list-style-type: none"> • Capital call provisions • No binding sales agreement • DAF may only hold active business interest for five years • Appraised value may be subject to change and discounts applied • Transfer restrictions may require approval from shareholders • Charity may be subject to unrelated business income tax • Potential challenges with debt and hot assets 	Additional fees may apply	
<p>Tangible Personal Property</p> <p><i>Minimum gift: \$250,000</i></p> <ul style="list-style-type: none"> • Limited to fair market value as determined by IRS Related Use Rule • Often difficult to value – may require appraisal specialist • Requires physical verification/ evidence 	No due diligence fees apply	

* Ren partners with Charitable Solutions for real estate donations.



Five steps to donate complex assets

1

STEP 1: Advisor contacts Ren help desk

Once a client expresses interest in donating a complex asset to a DAF, the advisor can call RCF's complex assets team at 317-757-3515. A team member then gathers information about the asset and sends the advisor an email with a due diligence checklist that outlines the basic information RCF needs to begin its process. As needed, a follow-up call is scheduled to review the proposed gift.

2

STEP 2: Advisor assembles due diligence

Timing: Within advisor's control

The due-diligence process requires gathering specific information for each type of asset. For example, the due-diligence checklist for the donation of interests in privately held companies asks for the following:

- Description of the asset to be contributed
- The business's most recent federal income tax return and financial statements
- Description and history of the business and background on management
- Governing documents, such as the entity's certificate of incorporation, charter, bylaws, and stockholders' agreement
- List of stakeholders/owners and their respective interests in the business
- Documents related to any planned sale transactions that might affect the asset
- Anticipated income (including unrelated business income) that is likely to be allocated to RCF

Once assembled, the advisor provides the diligence materials to Ren, a third-party service provider for RCF.

3 **STEP 3: Due diligence review by Ren**

Timing: To be completed within four business days of receipt of full due diligence

- Ren reviews due diligence materials and addresses additional questions or items with the advisor.
- A Ren internal CPA performs an unrelated business income (UBIT) analysis for inclusion in the internal summary and recommendation memo.
- Ren submits a summary and recommendation memo to RCF's officers.
- Within five business days of receipt of summary and recommendation memo, RCF's officers determine whether the proposed gift is accepted.

4 **STEP 4: Complex asset contribution is accepted**

Timing: Within two business days of the board's decision

- If the proposed gift is accepted, Ren coordinates with RCF's counsel to prepare a donor acknowledgment form and gift agreement for the client's review and

approval. These documents include any conditions the board established in connection with accepting the gift. The client may wish to ask outside legal counsel to review the proposed gift and agreement.

- The advisor and client complete and return to Ren a completed RCF DAF application, along with the gift agreement.

5 **STEP 5: Liquidation and grant recommendations begin**

- After RCF countersigns the gift agreement, Ren provides a fully executed gift agreement to the advisor. At this point, the advisor must assist the client in coordinating the transfer of the asset to RCF. Ren guides the transfer process, which varies depending on the specific asset.
- RCF establishes the DAF account.
- RCF sends the client a letter acknowledging the gift. The advisor and the client may consider additional tax-related matters, such as completing an IRS Form 8283 regarding noncash charitable contributions or getting a qualified appraisal.

Note: Account is not funded with cash unless and until the gifted asset is sold. Before that time, unless the donor makes a charitable contribution of cash, grants cannot be made from the account.

Post-donation process

After the complex asset donation is transferred to RCF, the processes are the same as non-complex assets.



Assets are liquidated as soon as is practicable.



Advisor invests the cash in the donor's account per their investment strategy.



Donor can send money to the qualified charities of their choice.

Ren's complex assets roadmap

In 2018, we noticed that many of our advisors started making plans for their clients to sell their businesses in the coming years. We quickly stepped into action to provide the right services and solutions by creating a specialized complex assets division. We put the processes in place and built a team of complex asset experts to deliver the best possible resources to our clients, so they were equipped and prepared to meet the demand for complex assets.

Today, our clients are still top of mind as our complex assets division expands. **Here's what's on the horizon for complex assets at Ren:**

- Grow our expert complex asset staff to meet the increasing demand.
- Focus on services and solutions for family offices and their advisors.
- Pursue a higher average gift size (due to the complexity and resources required).
- Use minimum gift/investment amounts.
- Seek gifts of business interests and alternative investments.
- Continue to outsource gifts of real estate and S-corporations.





Contact us today about complex assets
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