A Guide to Gifts of Appreciated Property

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Gifts of Appreciated Property

You are generous with your cash gifts, but sometimes you would like to give even more. Gifts of appreciated assets may be the solution:

- A gift of appreciated assets may allow you to give to your heart's content when cash flow is not sufficient.
- When you make a gift of an appreciated asset, there may be additional tax advantages.

Motives for Giving

While gifts of appreciated assets provide excellent tax benefits for many—that is just icing on the cake. Our experience is that most Christian stewards give:

- Due to their love for God and desire to express that love to those around them.
- As an act of worship and gratitude to God.
- To fulfill the "gift of giving" (Romans 12:6-8).

For the generous Christian, tax advantages are seldom a primary motivation, but they should be considered as part of good stewardship.

Capital Gains Tax

When you own an asset that has appreciated in value, if you sell that asset, you will pay a tax on the difference between your purchase price and what you received from the sale. This is called a capital gains tax.

Capital gains tax rates are based on your personal income tax bracket at the time of sale and the length of time you owned the property.

Capital Gains Tax is Optional

Did you know that capital gains tax is an optional tax? You have three options that are correlated with this tax:

Option #1—pay the tax.
Naturally, this is the most expensive option.

Option #2—postpone the tax.
By holding appreciated assets, entering into an exchange of real estate under a special section of the tax code, or an installment sale, you can postpone the tax. Initially, this is less painful, but the day of reckoning will come.

Option #3—avoid the tax.
When appreciated assets are transferred at the time of death, the capital gains tax is avoided. However, this option may not be suitable for your planning needs. **The good news is that capital gains tax can also be avoided by a charitable transfer.**

Charitable Transfers of Appreciated Assets

When you make a gift of appreciated assets to charity, tax avoidance is one of many advantages. These include:

- A charitable deduction equal to the full fair market value of the property at the time of the transfer.
- No capital gains tax payable when the asset is sold.
- The satisfaction of making a significant gift—often without impacting your cash flow.
- You will not have to manage the responsibility for the asset.
- There is no expense of maintaining the asset.

Choosing the Right Assets to Give

When exploring how a gift of appreciated assets might work for you, consider your generosity desires and then evaluate your assets. These questions will get you started:

- Does the asset still meet your investment goals and objectives?
- Is it producing sufficient income to meet your personal and charitable giving needs?
- Has it appreciated substantially in value?
- Do you wish to continue managing this asset?

Here are a few more points to consider:

- Of the assets you are willing to transfer, which has the highest appreciation? Gifting it to charity will eliminate the capital gains tax payable on the appreciation.
- For assets other than securities, are they marketable? Do they require active management? Is there debt on the property?
- The tax implications of gifting an appreciated asset also include charitable deductibility. This deduction is limited to 30% of adjusted gross income with a 5 year carryover for any excess.

Bargain Sale: a Combination of Sale and Charitable Gift

If the asset that provides the greatest tax benefit is worth more than the gift you desire to make, consider the bargain sale. This is an agreement with a charity to purchase your property for less than its full fair market value. The difference between the value of the asset and the purchase price is your gift.

Note that:

- You receive an income tax charitable deduction for the value of your gift.
- Your cost basis will be allocated between the gift and sale portions.
- There will be no capital gains tax payable on the gain attributed to your gift.

Some Appreciated Asset Gifts Provide You Income

If you desire to give an appreciated asset that is currently a source of income, you may be able to **give the gift and receive income in return.**

Depending upon your circumstances, there are several charitable options for consideration. With any of these options, you will receive a charitable deduction for the fair market value of the property minus the present value of your future income. There will be no capital gains tax payable at the time of transfer or when the charity sells the property.

The asset you wish to transfer and your income needs will determine the details of the best agreement for you.

The Importance of Timing Appreciated Asset Gifts

Remember that using appreciated assets to maximize your charitable gift can be good stewardship. Consider the difference between the sale of appreciated stock before or after a charitable gift.

Data

Present Value of Stock	**$50,000**
Cost Basis	**10,000**
Purchase Date	**1998**
Capital Gains Bracket	**20%**
Income Tax Bracket	**37%**

Note that there is a considerable difference the greater the appreciation of the asset— the greater the benefit of giving the propert y rather than selling it and giving cash.

	Sale Then Gift	Gift Then Sale
Fair Market Value	**$50,000**	**$50,000**
Tax on Capital Gain	**8,000**	**0**
Gift To Charity	**$42,000**	**$50,000**
Tax Savings, Charitable Deduction	**$15,540**	**$18,500**
Net Gift to Charity	**$42,000**	**$50,000**
Net Tax Savings to Donor	**7,540**	**18,500**
Combined Charitable and Personal Benefits	**$49,540**	**$68,500**

Applicable Tax Rules

Here are some applicable tax rules for your consideration:

- Gifts of cash are deductible up to 60% of adjusted gross income. However, when a gift is of long- term property that has appreciated in value, that deduction is limited to 30% of adjusted gross income.
- If the gift exceeds the deduction which can be taken in the year of the gift, it can be carried over for 5 additional years.
- If the gift is of tangible personal property, it must be used in a manner related to the charitable function of the organization, or the deduction will be for the cost basis only.
- Appreciated assets held for less than one year will be deducted at cost basis only—not the current fair market value.
- Property held for trade or business will also be deducted at cost basis.

How to Make Your Gift

As you consider a gift of an appreciated capital asset, please determine:

- How much you wish to gift.
- What property will best meet your goals and objectives.

And please contact us to discuss your generosity desires.

A Free Service for You

We are here to assist as you consider and complete your gift. Our services can help you look at the bottom line to make certain that your gift provides the greatest benefit for you and for ministry.

We would be honored to discuss your generosity desires, help you evaluate your potential gift assets, and prepare appropriate gift illustrations for you. There is no cost or obligation to you– may we help?

Contact

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