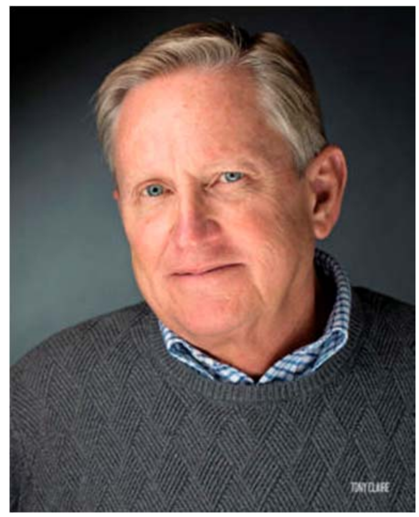
Donating valuable assets can benefit giver, charitable group

BY ROGER NAGEL
Thursday, January 23rd, 2020 at 10:00am

RIO RANCHO, N.M. — Last month I wrote about the new itemized deduction rules and charitable donations.

Hopefully, some of you benefited by "bunching" donations or by using a "donor advised fund." This month I want to continue the generosity discussion by writing about a different kind of giving: the giving of non-cash assets.



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Terms glossary

Fractional interest: A partial ownership interest (less than 100 percent).

Gain recognition: Amount of taxable income from a sale (net proceeds minus cost).

Non-voting interest: An ownership interest that has no decision-making authority.

Qualified charitable distribution: A payment from an IRA to a qualified charity on behalf of a taxpayer over age 70½, in place of the annual required minimum distribution.

Required minimum distribution: That amount of IRA money which must be withdrawn and taxed on an annual basis after age 70½.

But first, a little background. In the first half of my career, my colleagues and I prided ourselves in learning how to advise clients on accumulating wealth through their businesses.

We thrived by recommending ways to increase value. Unfortunately, we rarely considered what happened next: We focused so much on the business we often lost track of the importance of the family, not an uncommon trend during the 1980s.

That changed after I had the opportunity to experience "applied philanthropy." As the chief financial officer of a large not-for-profit educational organization, I learned firsthand how and why this works so well for certain families.

With a new CPA firm in 2007, it became much easier to focus on business success and financial success of households.

The donation of highly appreciated assets — think of land, commercial buildings, houses, businesses and marketable securities — often serves multiple purposes.

For one, the charity can sell that asset and pay no tax. It is a tax-exempt entity.

Second, the donor receives a large deduction, without gain recognition.

Third, certain assets may not be attractive to a future generation and unfavorable for inheriting. A properly structured gift of these assets can greatly enhance the charity, the heirs and the donor's retirement and estate planning.

Such gifts can take many forms. Without getting overly technical, certain trusts may be preferable to outright, direct gifts.

Sometime these gifts involve a fractional interest or a non-voting interest to facilitate tax savings during the donor's working years and to assist in preparing such an asset for sale. A "charitable gift annuity" may allow for a fixed, guaranteed, partially tax-free, lifetime income stream.

Assets owned by an IRA can be given directly to charities by way of a qualified charitable distribution, eliminating required minimum distributions for owners over age 70½.

You may be thinking, "Didn't the deadline for a 2019 donation just pass at year's end?" Yes, it did; that's why these gifts are called "planned giving."

If you have a highly appreciated asset you wish to give away in 2020, whether for a charity to sell or keep, start the planning process now. Once a buyer is identified, it is often tempting to close the transaction with haste, and the benefits above may be lost forever.

Organize your team of advisers to include experienced attorneys, tax advisers and other agents. The rules can be tricky and confusing, but the results can be very rewarding, financially and otherwise.

Recommended reading: "How to Run Your Business So You Can Leave It in Style," by John H. Brown (published 2009, revised, Business Enterprise Institute Inc.) This is a great "how-to" guide for developing a successful exit strategy from the company you own.

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