

The Power of Noncash Gifts

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VP, Philanthropic & Charitable Strategist



With over a decade of experience in the legal, financial services, and nonprofit industries, George brings knowledge, professionalism and understanding of the legal and financial landscape to his relationships. He is well known as a trusted, knowledgeable and innovative advisor, helping his clients do more with their assets and resources as they work to shape their future.

Here to help develop customized charitable strategies for both individuals and organizations, George is knowledgeable in charitable giving strategies, nonprofit law, as well as estate, business and tax planning. Drawing on the experience of our skilled team of financial professionals, First Citizens partners with you to manage your assets in order to help meet your financial goals and keep an eye on financial trends and new products and services.

A North Carolina native, George is a graduate of Campbell University's Norman Adrian Wiggins School of Law and the University of North Carolina at Chapel Hill, where he was awarded a degree in History, as well as a degree in Peace, War and Defense. George is a licensed attorney and a member of the North Carolina Bar. George lives in Raleigh with his wife, Catie, daughter, Lillian, and his dog, Lola. When not working, George enjoys spending time with his family, traveling, and playing and watching most competitive sports.

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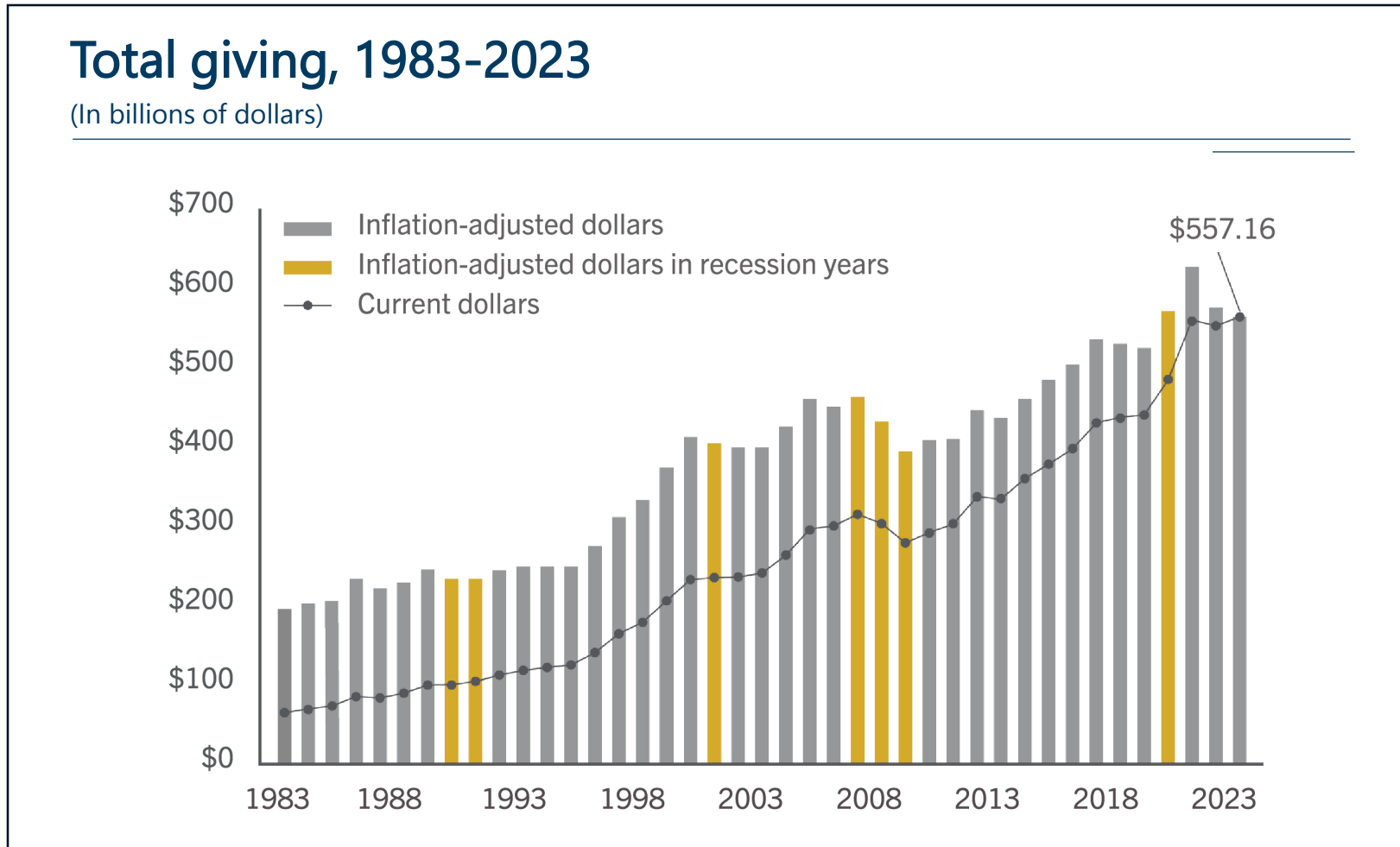
Agenda

1	Statistical Overview of Charitable Giving
2	Why Noncash Gifts?
3	What Are Noncash Assets/Gifts?
4	M&A Market Overview

An Overview: Giving In The USA



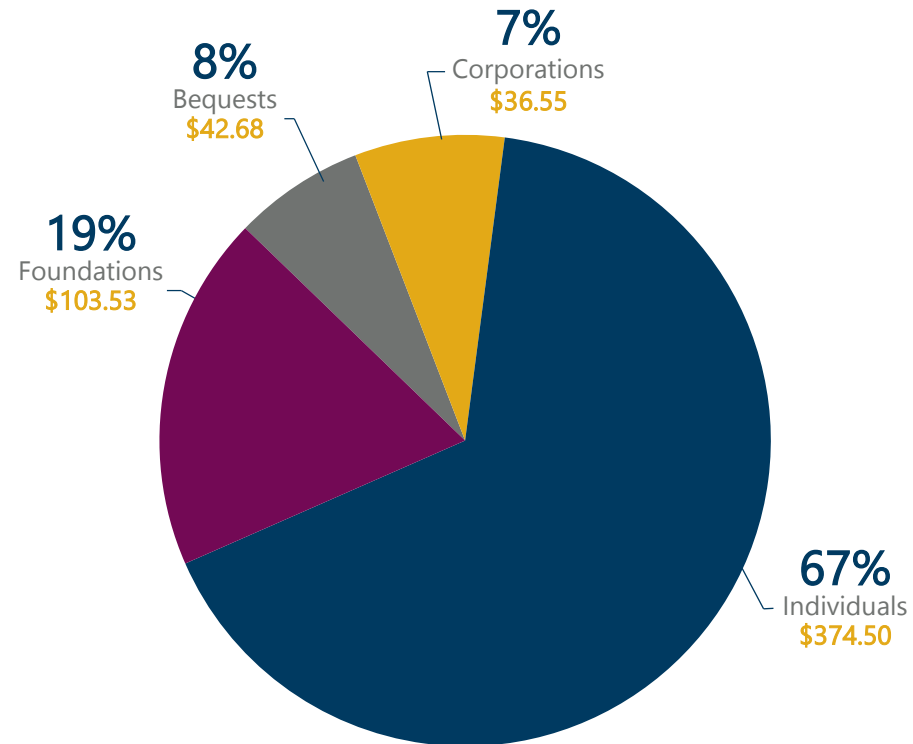
Charitable Giving Dollars



Source: Giving USA Foundation.

Where Gifts Come from

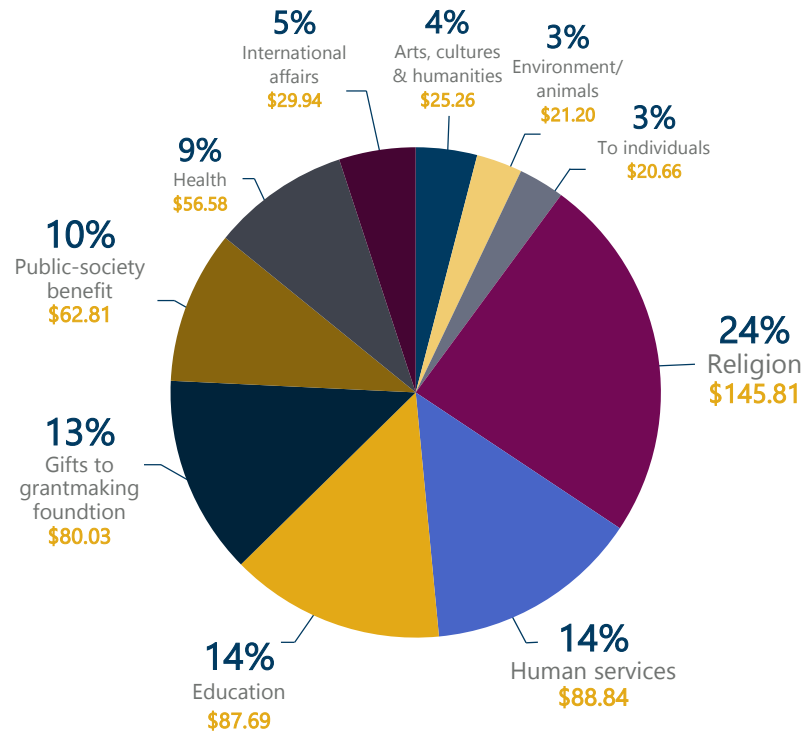
2023 contributions: \$557.16 billion by source of contributions
In billions of dollars – all figures are rounded



Source: Giving USA Foundation.

Where People Are Giving

2023 contributions: \$557.16 billion by type of recipient organization*
 In billions of dollars – all figures are rounded

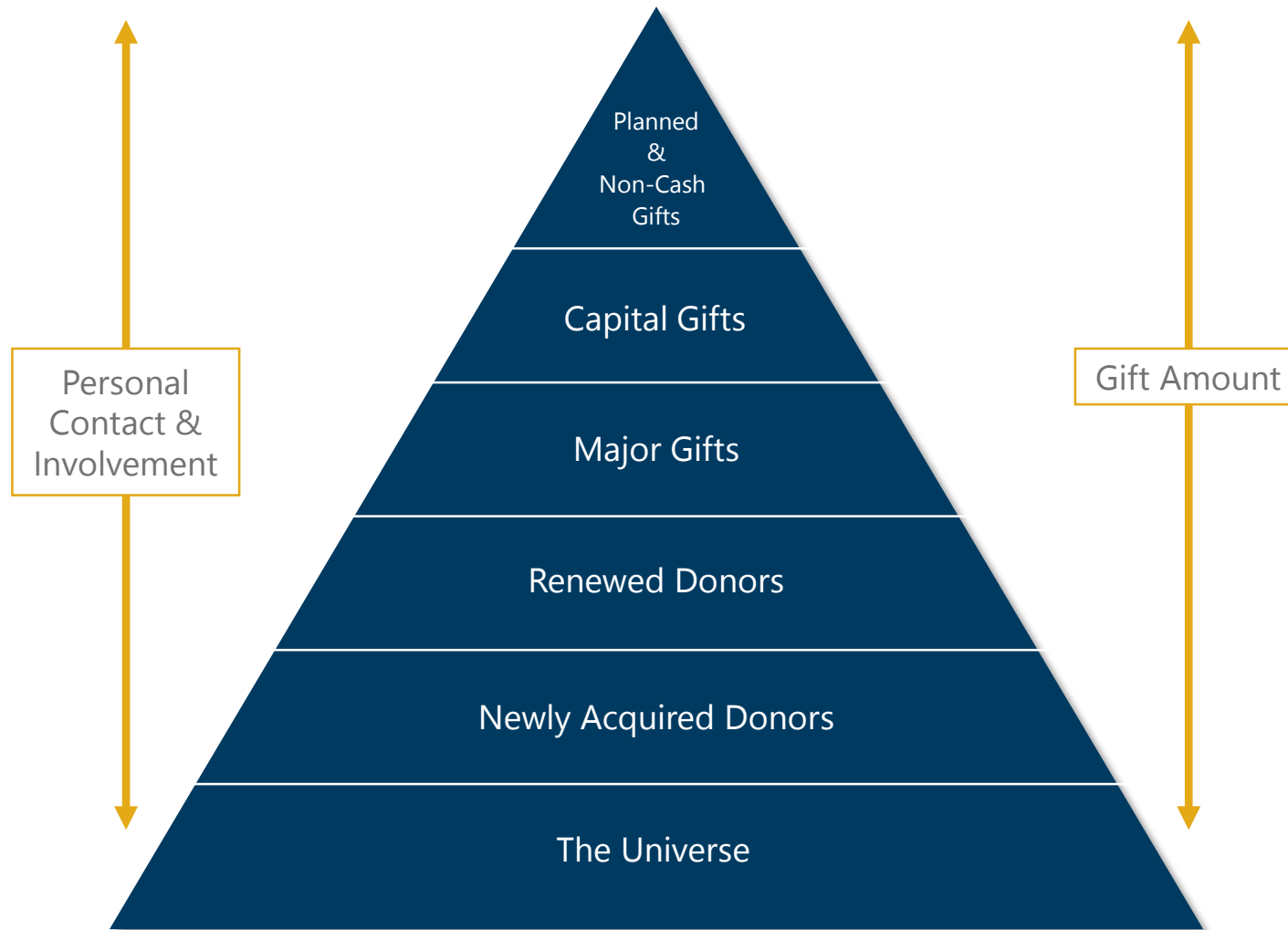


* Total includes unallocated giving, defined as the difference between giving by source and recipient categories. Unallocated giving totaled -\$61.66 billion in 2023.
 ** Estimates developed by Indiana University Lilly Family School of Philanthropy using data provided by Candid.

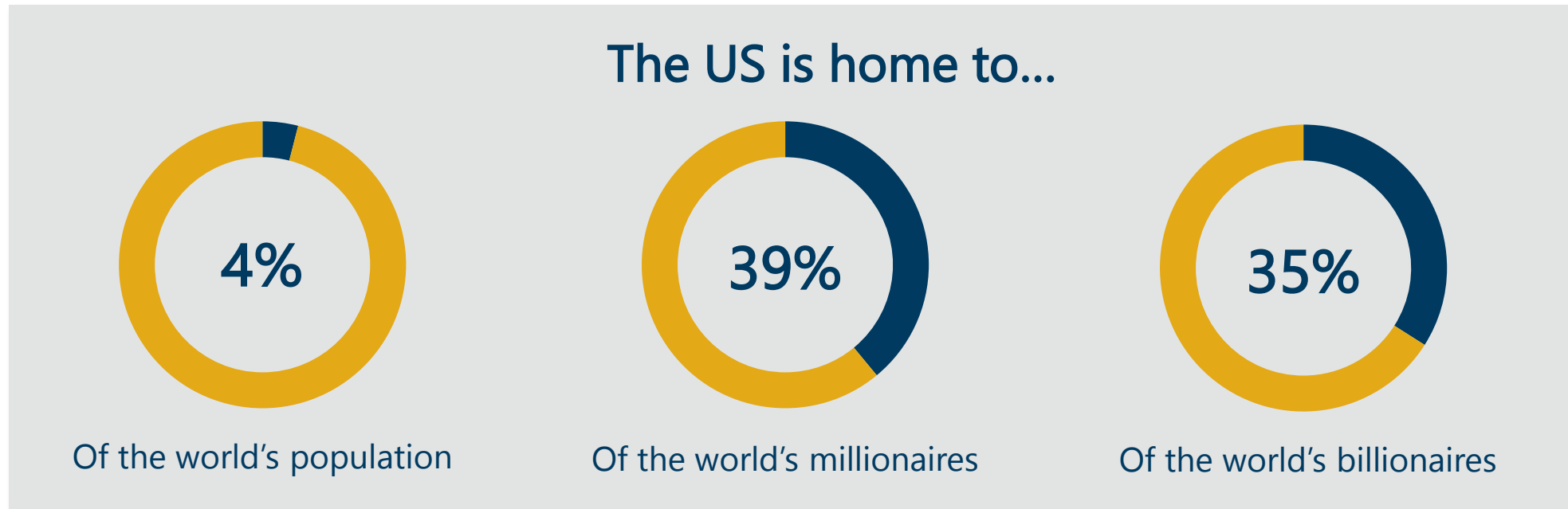
Why Noncash Gifts?



The Donor Pyramid



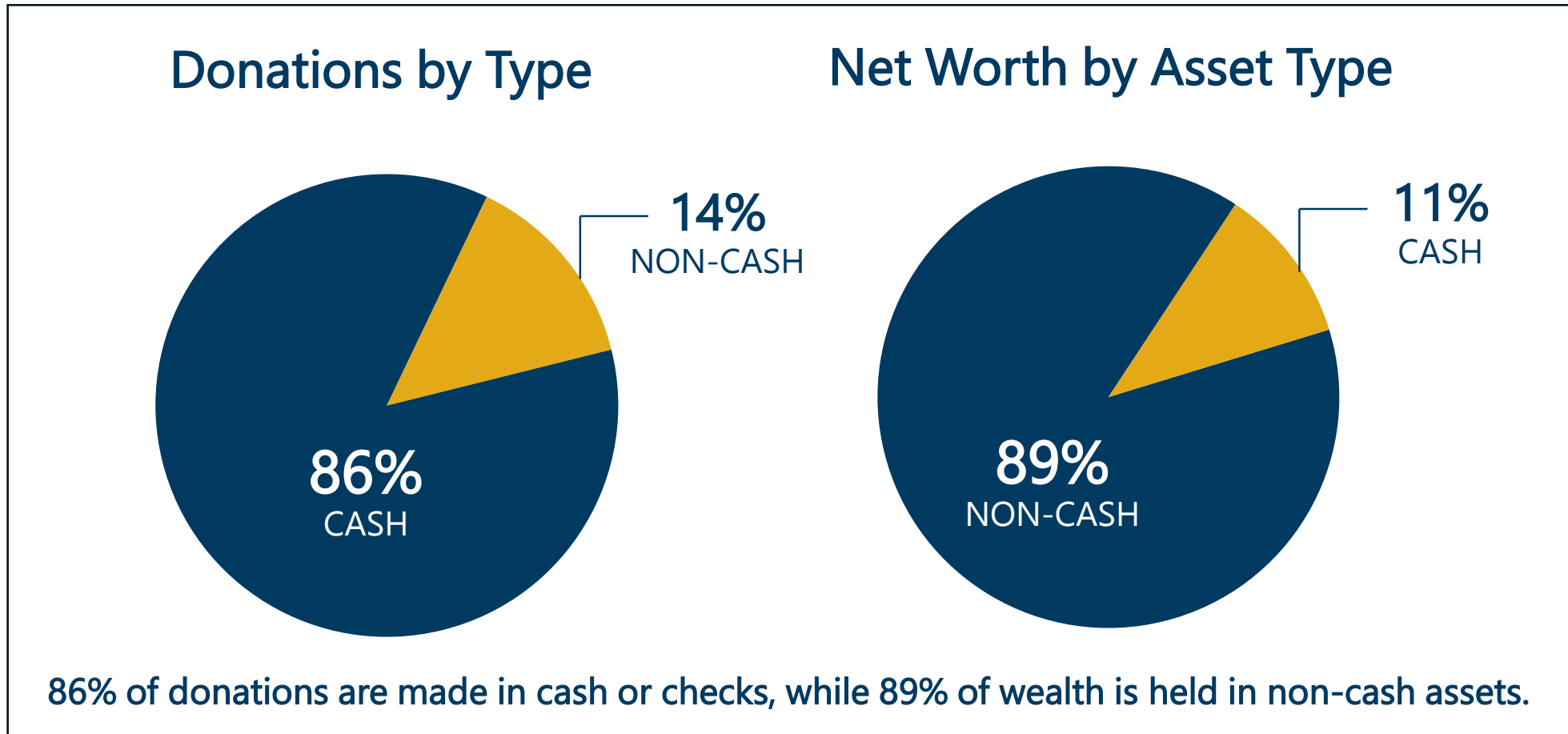
Wealth Distribution



High net worth individuals continue to increase in number and wealth

Source: Fundraising Effectiveness Project

Cash vs. Non-Cash Assets



(Sources: 2016 U.S. Trust Study of High Net Worth Philanthropy; Federal Reserve Q3 2020 Financial Accounts of the United States)

Source: Cash Isn't King? Non-Cash Asset Fundraising Explained. The Giving Block.

If You Are Asking For Cash, You Are Asking Small

- Wealth is not held in cash. It is held in noncash assets.
- Irregular unearned gains – like appreciated assets – generate more giving
- People who are reminded of their wealth act more charitable than those that are not reminded.
- Asset gifts like stocks are cheaper for donors who itemize and those who don't itemize.

What Happens When Gifts Shift From Cash To Assets?

When share from **cash** grows by 10%, then total contributions **fall by -11%**



When share from **securities** grows by 10%, then total contributions **grow by +14%**



When share from **real estate** grows by 10%, then total contributions **grow by +24%**



What are Noncash gifts?



What are non-cash gifts?

Donating private interests before a liquidity event can mean reduced taxes and increased giving

Potential Assets

- Publicly Traded Stock
- Private company stock
 - S-Corp
 - C-Corp
- LLC and Limited Partnership interests
- Real Estate
- Grain
- Cryptocurrency
- Tangible Property (Artwork, Collectibles, etc.)
- Intellectual Property

The Benefits



Charitable tax deduction



Minimize capital gains exposure of long-term appreciated assets



Establish charitable funds for strategic giving—now & in the future depending on structure/strategy

Cash vs. Stock

\$100,000

Donation to Charity



CASH



SELL STOCK THEN GIVE CASH

(\$100,000 FMV / \$50,000 cost basis)

What is the purchasing power of each asset?

\$100,000

\$92,500

After -\$7,500 in capital gains assessed

If donated, how much does the charity receive?

\$100,000

\$92,500

What if you could take a FMV tax deduction & minimize capital gains, while keeping your cash?

Alternative:

Donate the stock directly to charitable organization instead of selling it. By doing this, Donor receives an income tax charitable deduction for the full fair market value of \$100,000 and eliminates any capital gains tax.

Assumes a 15% capital gains rate and assumes the appreciated asset has been held for longer than one year.

Using Privately Held Asset For Giving

Capital gains taxes are potentially eliminated when long-term appreciated assets are given directly to a charity.

Donate Commercial Real Estate		Sell Real Estate Donate Cash
\$100,000	Tax Basis	\$100,000
\$1,000,000	Current price	\$1,000,000
\$0	Capital gains and Medicare surtax paid* (23.8%)	-\$214,200
\$1,000,000	Total contribution to charity (after deducting federal taxes)	\$785,800
\$370,000	Income tax savings by making contribution	\$290,756

Greater tax deduction, greater contribution

* The chart assumes that the donor is in the 37% federal income bracket and will itemize deductions. State and local taxes and the federal alternative minimum tax are not taken into account. Assumes all realized gains are subject to the maximum federal long-term capital gains tax rate of 20% and the Medicare surtax of 3.8%

Tangible Personal Property

Tangible Personal Property can be a great gift under the right circumstances.

Types:

- Jewelry
- Furniture
- Collectibles
- Artwork

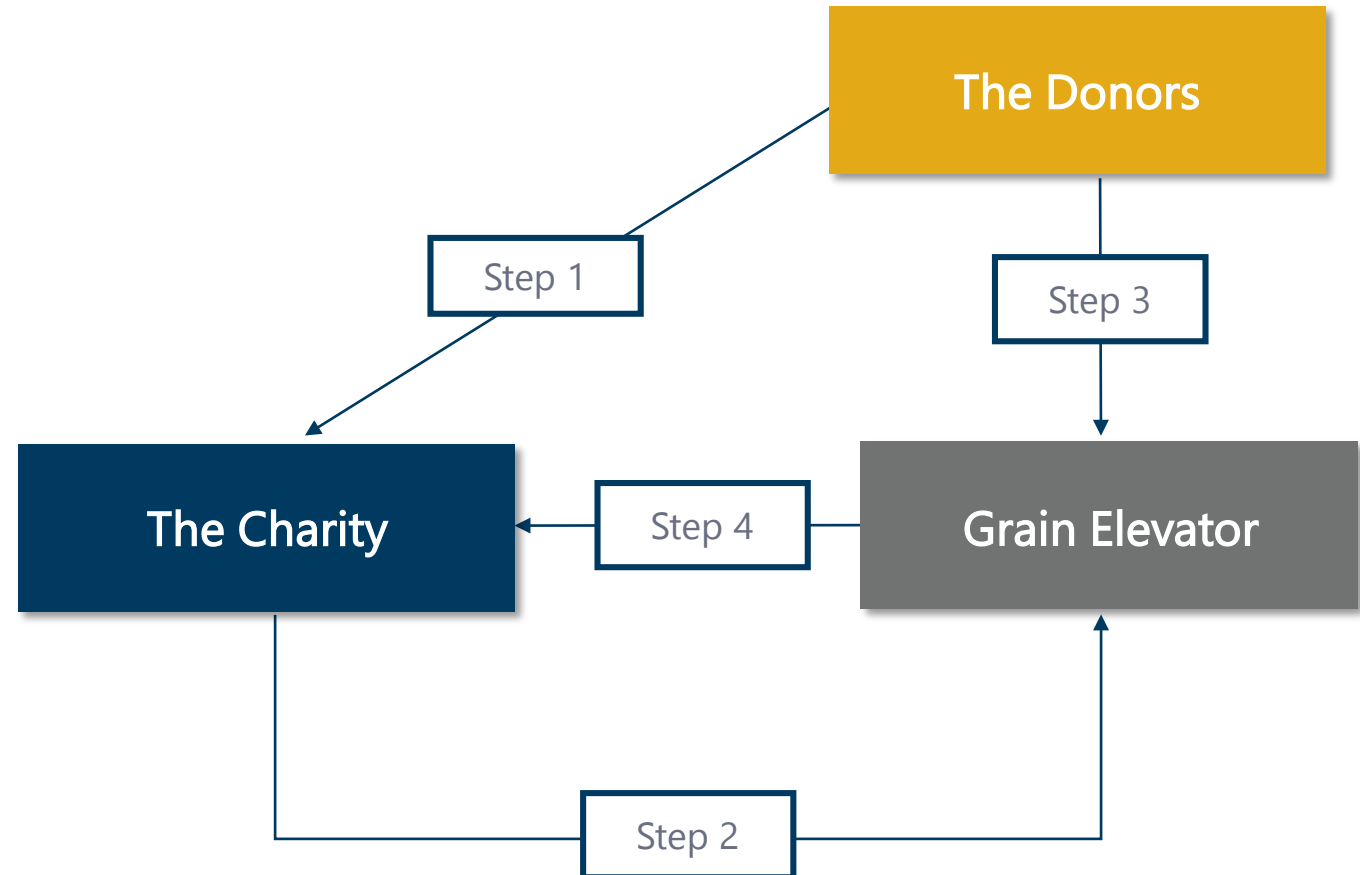
Type	Related Use Property	Non-Related Use Property	Inventory
Description	Property that will be used by the charity in it's exempt function	Property that is not intended for use by the charity for it's exempt purpose (i.e. Sale)	Property that was produced ultimately for sale
Example	Artwork given to a museum	Artwork given to a foodbank	An artist donating their artwork
Deduction	FMV	Lesser of FMV or Basis	Basis

Gift of Crops (Grain)

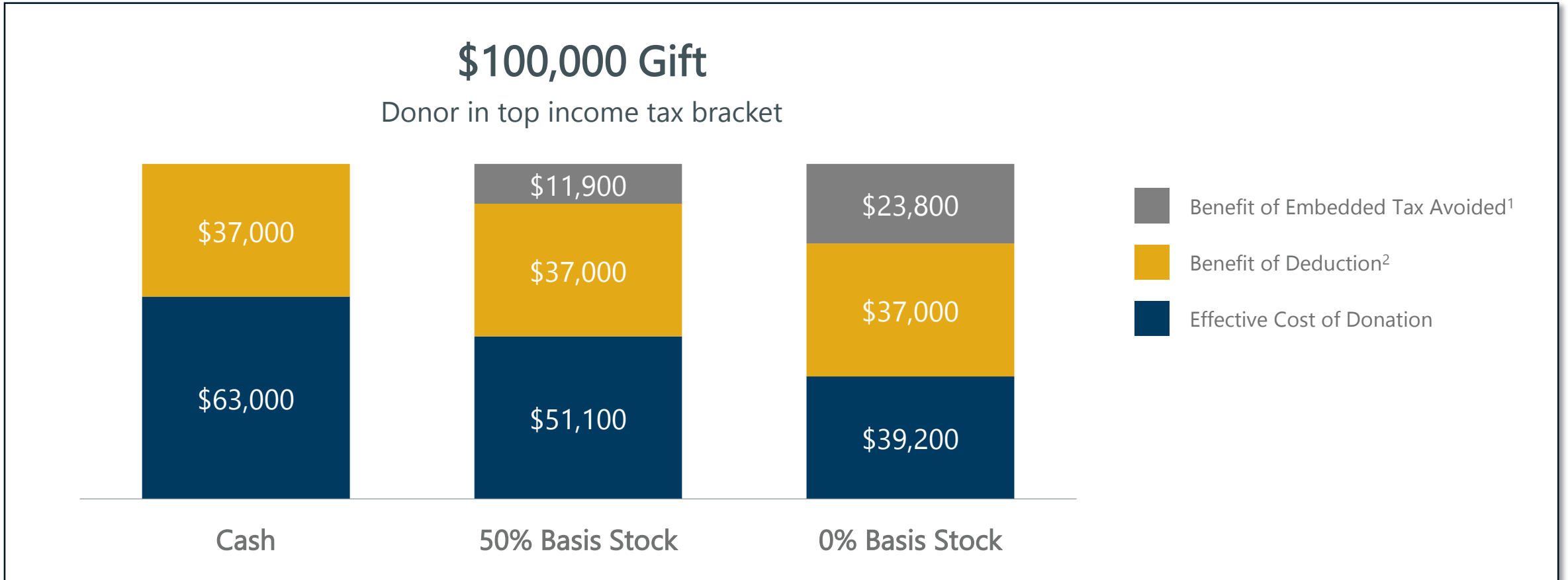
John Farmer is a cash basis wheat farmer. If he transfers 1,000 bushels of wheat to his favorite charity, he may take a deduction equal to his cost basis. He also avoids selling the wheat and including the value of the 1,000 bushels in his ordinary income which may have additional tax benefits.

Steps:

1. Farmer notifies the Charity that it intends to make a gift of commodity.
2. Charity opens an account at local grain elevator.
3. Farmer delivers commodity to grain elevator, the storage receipt is made out in the name of the Charity and the commodity is held in the Charity's account.
4. Grain elevator sells commodity and sends proceeds to Charity.



Not All Gifts Offer Same Tax Savings



¹ Applicable rate for stock gain is assumed to be 23.8%.

² Benefit of deduction assumes full use of deduction against income otherwise taxed at 37% tax rate..

Issues to Consider



Timing Considerations

- Anticipatory Assignment of Income doctrine is the biggest concern with charitable donations related to noncash gifts
- General Rule: a donor cannot give away the right to receive income in an effort to avoid tax consequences
- Client must give before a legally binding agreement is in place
- If not in time, IRS could cause donor to recognize gain even though a gift was completed
- For publicly traded stock this right to receive income generally vests once the shareholder's approve the purchase & sale/merger agreement
- For privately held companies this right to receive income generally vests upon the signing of a purchase & sale agreement
- For real estate, right to receive income vests generally once a contract has been signed

Step-Transactions

- A doctrine used to deny tax benefits derived from a series of transactions that should more properly be treated as a single transaction.
- Three tests to analyze whether the step-transaction doctrine applies to a series of transactions:
 - The end-result test
 - The interdependence test
 - The binding-commitment test.
- **End-Results Test:** The separate transactions were component parts of a single transaction intended from the outset to produce the ultimate result.
- **Interdependence Test:** A series of transactions are so interdependent that, without completion of all the transactions, the individual transactions would have been fruitless on their own.
- **Binding Commitment Test:** At the time of the first transaction, there is a binding commitment to complete all the transactions.

Unrelated Business Income

An activity is subject to UBIT (unrelated business income tax) if:

1. It is a trade of business
2. It is regularly carried on, and
3. It is not substantially related to furthering the exempt purpose of the organization

Exceptions: dividends, interest, certain other investment income, royalties, certain rental income, certain income from research activities, and gains or losses from the disposition of property are excluded when computing unrelated business income.

If more than \$1,000 in gross unrelated business income must file 990-T.

Taxed at corporate income tax rates: 21%*

*See [IRS.gov](https://www.irs.gov) regarding unrelated business income as its defined.

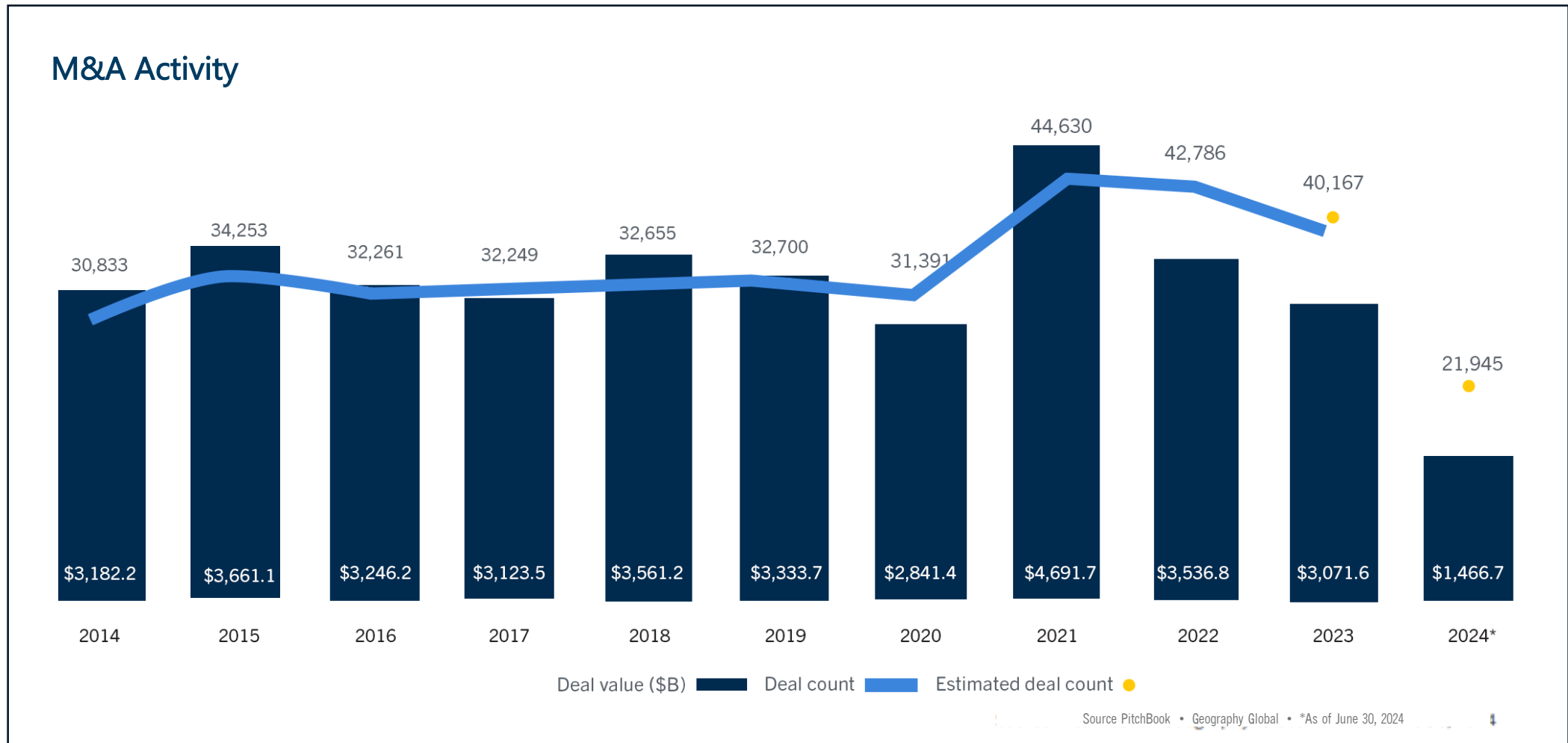
M&A Market Overview



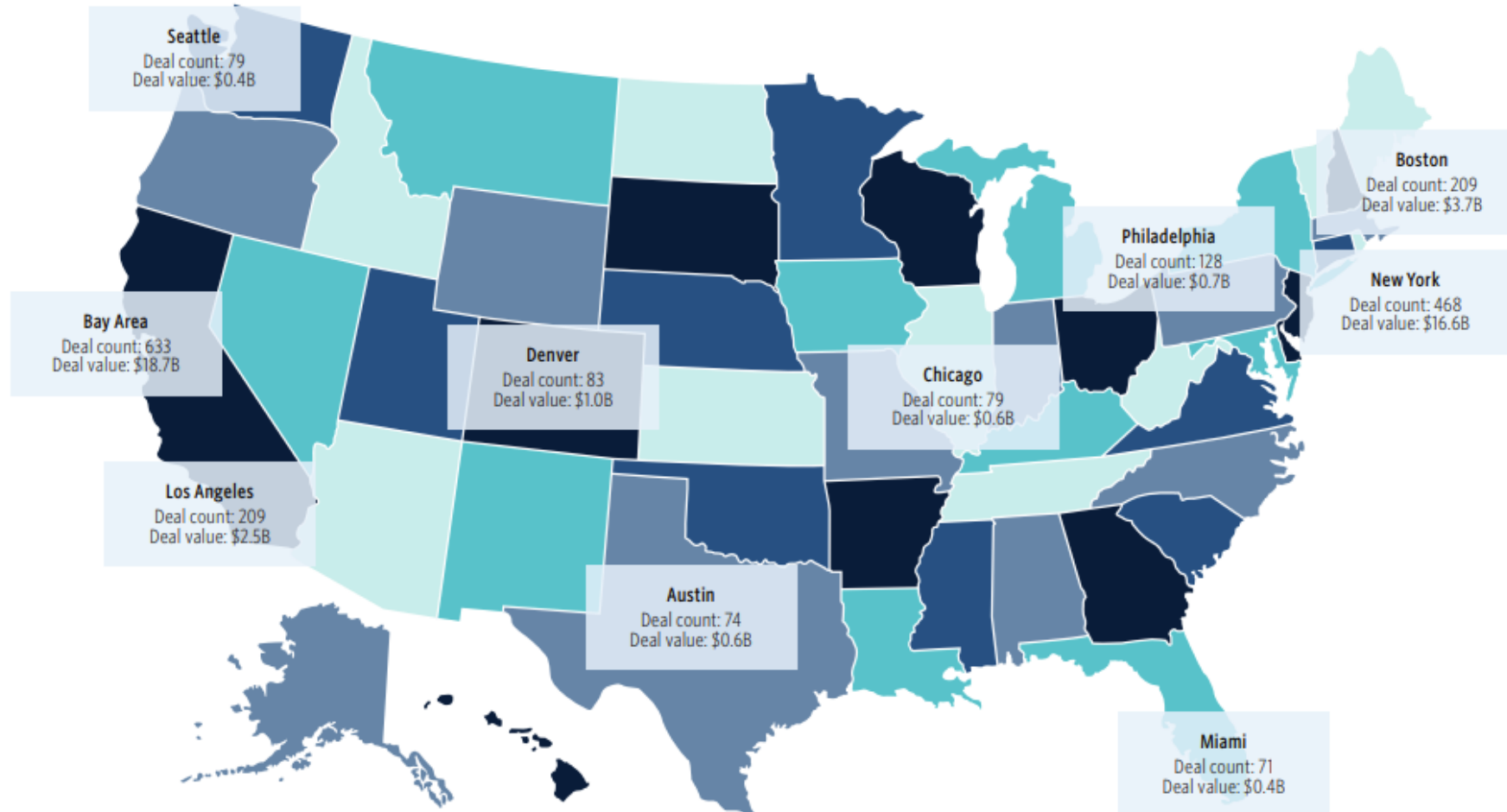
The World of M&A: 2024

- Global M&A activity totaled over \$3Trillion in 2023
- M&A activity is tracking 10% to 15% ahead of 2023 both in deal count and deal value
- PE transactions have rebounded from a 33.5% share of total transactions to a 41% share.
- Valuations in M&A are holding steady at 9.5X EBITDA and 1.6X revenue
- Trading multiples in public markets are higher at 14.5X EBITDA and 3.8X revenue

The World of M&A: 2024 (Continued...)

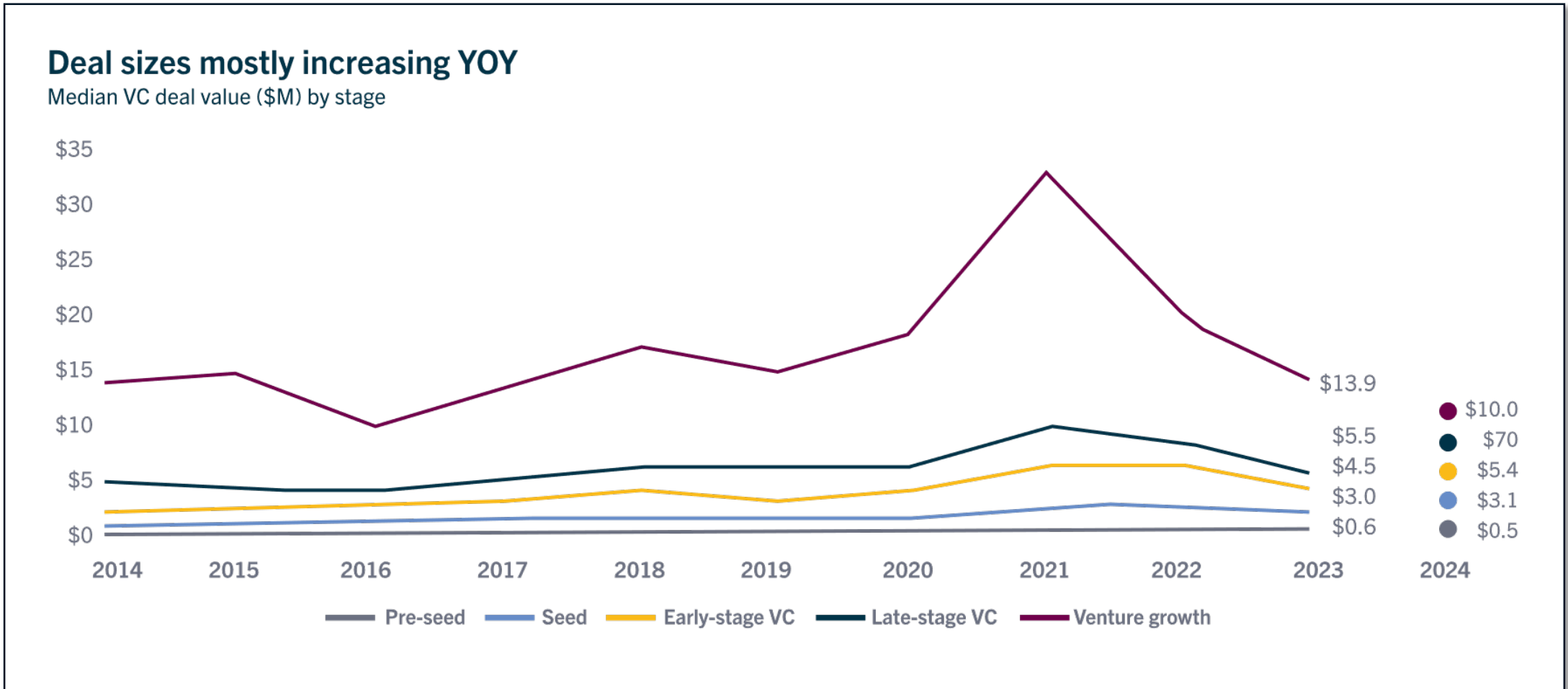


A Geographical View



PitchBook-NVCA Venture Monitor • Geography: US • *As of June 30, 2024

Deal Size



PitchBook NVCA Venture Monitor • Geography USA • *As of June 30, 2024

Why is this important?

- M&A transactions lead to new stock positions, forced liquidity, and capital gain events
- M&A events are great catalysts for discussing charitable giving with clients
- M&A transactions mean that MONEY IS IN MOTION!!
- You can help steer it in the right direction!

Gifts of Stock, Mutual Funds, and other Investments

Dollar Amounts in Thousands

Size of adjusted gross income	Returns with donations of corporate stock, mutual funds, and other investments				
	Number of returns [1]	Number of donations	Donor's cost [2]	Fair market value	Amount carried to Schedule A [3]
All returns	216,263	594,824	14,055,304	91,076,255	89,700,614
Under \$25,000	* 20	* 20	* 52	* 935	* 935
\$25,000 under \$50,000	* 349	* 354	* 4,085	* 21,541	* 21,541
\$50,000 under \$75,000	5,079	7,088	23,443	156,065	156,065
\$75,000 under \$100,000	3,036	4,042	5,578	36,844	36,844
\$100,000 under \$200,000	23,422	64,101	171,212	701,645	701,601
\$200,000 under \$500,000	65,669	139,505	734,563	2,796,031	2,783,936
\$500,000 under \$1,000,000	46,404	117,397	933,933	5,094,299	5,083,405
\$1,000,000 under \$1,500,000	19,429	52,954	1,168,843	3,119,953	3,114,322
\$1,500,000 under \$2,000,000	10,788	32,941	474,980	1,982,792	1,879,409
\$2,000,000 under \$5,000,000	22,275	73,045	1,416,588	6,226,111	6,117,418
\$5,000,000 under \$10,000,000	9,324	36,938	1,072,060	5,649,877	5,430,645
\$10,000,000 or more	10,469	66,439	8,049,966	65,290,162	64,374,492

* Estimate should be used with caution due to the small number of sample returns on which it is based.

** Data combined to avoid disclosure of information for specific taxpayers.

[1] Total number of returns does not equal the sum of returns by donation type because a return could have more than one type of donation.

[2] Not every donation has a donor cost reported.

[3] Amount carried to Schedule A is the fair market value from Section A (items with a deduction of \$5,000 or less, and all publicly traded securities) plus the lesser of the fair market value, the amount claimed, or the appraised value on Section B (items with a deduction of more than \$5,000).

[4] Other donations includes intellectual property, services, airline tickets and miles, and other donations.

Note: This table is based on data reported on Form 1040, U.S. Individual Income Tax Return; Schedule A, Itemized Deductions; and Form 8283, Noncash Charitable Contributions.

Source: IRS, Statistics of Income Division, Noncash Charitable Contributions, April 2024.

Key Takeaways



Key Takeaways

- Total Charitable donations have flight lined
- Noncash assets make the up the largest part of people's net worth and offer the highest potential gift value
- There are numerous types of assets that can be gifted with different tax and logistical implications
- The M&A market is improving leading to more liquidity events and more giving opportunity
- Gifts of Stock made up over \$91B of noncash gifts

Questions



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