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Noncash Donations? How to Help Clients

You wouldn't think that diamonds have much to do with endangered lowland gorillas. But recently at the New York auction house Christie's, proceeds from a $4 million sale of donated diamonds went to protecting gorillas as well as to several other organizations chosen by the donor.

Subsequent Christie's sales included a collection of antique canes and walking sticks and a wine collection. All proceeds went to various charities and institutions, according to Ronald Varney Fine Art Advisors in New York, which represented the donors at the auctions.

"Illiquid asset donations are an increasing trend and likely the biggest emerging donation trend besides social media donations," says Eileen Heisman, chief executive of the National Philanthropic Trust, who formed the organization's Charitable Asset Trust two years ago specifically to meet the needs of philanthropists with illiquid assets.

This is good news for financial advisors. "It's imperative today, when individuals and families are considering legacy and estate planning, to handle illiquid assets as part of their philanthropic vision," Heisman continues. "It's overlooked a great deal, and there is opportunity for advisors and attorneys to further help their clients."

NPT, one of the largest grant-making institutions in the United States, has accepted from philanthropists such nontraditional assets as a percentage of an orange grove in California, a vacation home in Vail, Colo., and a collection of rare coins. (Not everything is welcome. NPT has declined donations of such harder-to-sell assets as vintage surfboards and a chain of porn stores, as well as stock in a gaming company, according to Heisman.)

Indeed, illiquid or noncash asset sales are booming today, becoming a larger part of total donations by high-net-worth individuals for charitable purposes and tax benefit gains, according to philanthropic experts.

Consider this: Schwab Charitable, a huge donor-advised fund affiliated with Charles Schwab, recently reported that it handed out $822 million in grants to 34,000 charities in its fiscal year ended June 30. That was a 38% increase over the previous 12-month period. (Donor-advised funds are public charities that manage donations for families or individuals; the donor can take the tax deduction when the funds are given, but then take more time to distribute the money to recipients.)

Behind the scenes, philanthropic organizations are making donors aware that they can contribute less liquid items to a worthwhile cause and receive an immediate tax deduction — and if the assets are held long term, they can lower capital gains tax on appreciated values.

COMPLEX ASSETS

Usually, these assets — sometimes referred to as hard-to-value assets or complex assets — cannot be sold quickly because of a lack of a ready market in which they can be exchanged for cash. Examples of such assets: some fine jewelry, real estate, collectibles, land preservation strategies, some artwork, closely held entities and debt instruments.

But not all assets are exotic. Plenty of organizations encourage fans to donate old vehicles to support the groups and receive a tax deduction.

Noncash asset sales are becoming more popular for several reasons. For one thing, planned giving information is more accessible. "Donors can access anything about giving on the Internet quickly," Heisman says. "And when they read or hear they can gift other kinds of assets, they start inventorying what else they own."

Another issue is higher taxes. "Since taxes went up recently, there's much more interest in charitable trusts, because they allow you to get a tax deduction for the donation," explains Kemp Stickney, chief fiduciary officer at Wilmington Trust. "If something illiquid is donated into the trust, it subsequently can be resold within the trust wrapper, and the capital gain is deferred by the trust."

And there can be additional tax benefits. Chris McLean of Signature, a family wealth advisor in Charlottesville, Va., notes that some "progressive" states like Virginia and Colorado issue state tax credits for donated land on top of the federal tax reduction — a double incentive for donors.

McLean successfully advised a client recently whose great-grandfather established a trust 70 years ago; the trust is now terminating. Though the client would receive more than $2 million in equities as part of his share, he faced a tax burden of $400,000. McLean suggested the client gift a conservation easement on property he owned to a local government organization. The client could then use the resulting deduction to offset the tax liability.

HURDLES REMAIN

Still, there are challenges in donating noncash assets. There could be a delay related to valuation issues, unless the donor can find a ready counterparty willing to purchase the assets. And illiquid securities carry higher risks, especially during times of market turmoil.

“I have started down the path a few times, but the cost and complexity of getting valuations, and other advisors involved, has ended the exercise,” says Mark Balasa, co-chief executive of Balasa Dinverno Foltz, a wealth management firm in Itasca, Ill.

But other advisors say that once you master certain details, the process is worth the effort. Signature’s McLean says advisors should first have an in-depth conversation with the client to make sure that whatever asset is donated matches the client’s life goals.

Then, once a particular asset is identified, advisors should do some homework and gather the appropriate professionals to help advise the client through the transaction.

In donating art works directly to a charity, for instance, be aware that any donation of significant value may be subject to review by the IRS Art Advisory Panel.

Christopher Cordaro, chief investment officer at RegentAtlantic in Morristown, N.J., says clients at times have gifted various business interests. More typically, he says, the firm recommends they contribute appreciated stock.

Despite the headaches, Ken Nopar, a consultant who advises wealth managers on philanthropic matters, says using donor-advised funds to take complex assets often winds up being a good solution for both clients and nonprofit recipients.

“The clients are able to donate assets they may not need or want, and they can be even more generous than they previously thought,” Nopar says. “From their perspective, they are very interested in having their advisors manage their DAF investments rather than just utilizing a generic mutual fund.”

Donor-advised funds can differ widely, with some being more flexible than others. The American Endowment Foundation, for example, allows advisors to manage fund accounts. The foundation is also willing to hold complex assets, rather than requiring their immediate sale.

Advisors also must make sure a client’s goals align with those of the fund. Yet advisors benefit from working with donor-advised funds because they “are able to bring in more assets under management,” Nopar says. “They are able to convert these assets previously out of their control into assets they can invest and control. And the charities benefit because clients who have allocated assets into a charitable vehicle like a DAF are more generous with their donations.”

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