Creative Philanthropy: Noncash Assets

Dallas/Fort Worth FPA
January 26th, 2018

Dallas Foundation:
Gary Garcia, CAP, Senior Director of Development
Rod Riggins, CFA, CAP, Advisor Relations Officer
Agenda

- Benefits to using Community Foundations
- Donor-Advised Funds
- Noncash Assets Statistics
- Case Studies
A community foundation is a non-profit, publicly supported organization connecting donors with the causes they care about.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>First U.S. community foundation established in Cleveland, Ohio</td>
</tr>
<tr>
<td>1929</td>
<td>The Dallas Foundation established. The North Texas Community Foundation ...</td>
</tr>
<tr>
<td><strong>Today</strong></td>
<td>Approximately 750 community foundations in the United States, including 35 in Texas³</td>
</tr>
</tbody>
</table>

- More than $71 billion in assets⁴
- More than $6 billion in grants to local communities each year⁴

³ Key Facts on U.S. Foundations 2014; Foundation Center
⁴ 2015 Columbus Survey Findings; Foundation Center
Types of Funds at Community Foundations

- **Donor-Advised Funds**
  Involving donors in the use of their gift

- **Scholarship Funds**
  Supporting any level of education

- **Community Impact Funds** *(competitive grant process)*
  Meeting ever-changing community needs

- **Field of Interest Funds** *(competitive grant process)*
  Addressing needs in an important area of community life

- **Designated Funds & Fiscal Sponsorships**
  Directing gifts to specific agencies or projects

- **Agency Funds**
  Established by nonprofits for their own benefit
Community Foundation Services

Donor Services
- Donor education events
- Giving Circles (Women’s Philanthropy Institute)
- Next Generation Giving (Family Philanthropy Institute)
- Anonymous Giving (as requested)

Grantmaking expertise
- Knowledge of community needs
- Research - specific nonprofits or areas of interest
- International grantmaking

Personalized Planned Giving Services
- Bequest through a will
- Charitable Trusts
- Beneficiary designations (401k, IRA or other)
- Life Insurance
Facilitate the Transfer of Complex and Illiquid Assets

- Interests in closely held businesses
- Oil and gas interests
- Real estate
- Personal property (art, commodities, coin collections, wine collections, aircraft)

*Note: No automatic requirement to liquidate illiquid assets in contrast to commercial DAF’s.*
Donor-Advised Funds

Description

- A program of a public charity
- Donors recommend grants to qualified nonprofit organizations on their own timetable
- Ability to remain anonymous

Why use Donor-Advised Funds?

Donor receives an immediate tax deduction and alleviates the administrative burdens and time it requires to:

- Invest assets
- Conduct charity due diligence
- Issue grants
Donor-Advised Funds

Donor→Donor-Advised Fund:
Gifts of cash or other assets

Donor-Advised Fund→Charities:
Recommends Grants

Income Tax Deduction
Donor-Advised Fund Growth

Growth in Recent Years

- **Total Assets (left scale)**
  - $32.0 B in 2007
  - $77.6 B in 2015

- **Number of Accounts (right scale)**
  - 161,940 in 2007
  - 266,600 in 2015

## Commercial Donor-Advised Fund vs. Donor-Advised Fund at a Community Foundation

<table>
<thead>
<tr>
<th>Feature</th>
<th>DAF at a Community Foundation</th>
<th>Commercial DAF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate tax deduction</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Avoid capital gains on appreciated securities</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Ability to give anonymously</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Online access to fund information and grantmaking</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Personal assistance with philanthropic planning</td>
<td>✓</td>
<td>limited</td>
</tr>
<tr>
<td>Assistance with international grantmaking</td>
<td>✓</td>
<td>limited</td>
</tr>
<tr>
<td>Local knowledge of community needs</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>Multi-generation education</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>More flexibility for succession</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>Arrange site visits to local nonprofit organizations</td>
<td>✓</td>
<td>x</td>
</tr>
<tr>
<td>Illiquid assets maintained for long periods</td>
<td>✓</td>
<td>x</td>
</tr>
</tbody>
</table>
Noncash Assets

Benefits of giving noncash assets

• Avoid capital gains taxes
• Make up a majority of a client’s total assets
• Maximize charitable impact

What noncash assets can be donated that clients don’t normally think of?

• Publicly traded securities
• C-Corporation stock and assets
• S-Corporation stock and assets
• LLC interests
• Partnership interests
• Real estate
• Art and other collectibles

• Life insurance
• IRAs
• Mineral interests
• Other tangible assets
Before Choosing A Giving Vehicle

Ask the client to articulate his or her vision and goals

Questions to consider include:

- What specific goals would you like to accomplish to feel successful as a donor?
- What issues keep you up at night?
- What was the most joyful gift you have ever made? Why?
- What are you passionate about? What would you change or preserve in the world?
- What are your philanthropic values? What are your absolutes?
Wealthy Donors' Use of Giving Vehicles in 2013

Donor-Advised Funds
- Community Foundation: 8.5%
- Commercial: 7.2%

Private Foundation
- Commercial: 7.6%

Charitable Trust
- Commercial: 3.9%
Case Studies
Case Studies

1. Not So Limited Family Partnership
2. Have Art, Need Cash
3. Creating a Future Legacy, Today
4. Miami Vacation Home
5. Corn Pops, Taxes Drop
6. Legacy in Sonoma County
Case Study #1

Not So Limited Family Partnership

• Aging matriarch wants to involve the next generation in philanthropy today.
• Wants the charitable vehicle to be long term in nature and structured for generational giving.
• Donor wants to leave business interest intact.
• Donor is working with Professional Advisor on Dec 26th and wants to complete the transaction by year end.
Case Study #1

Not So Limited Family Partnership

Solution

Donor owns 100% of a LP

Donor donates 30% of a LP

Creates a DAF for her and her family

Becomes an endowment for children only upon her death

Donor receives immediate tax deduction
Case Study #2

Have Art, Need Cash

- Donor has fluid collection that is pledged in total to local museum.
- However, the donor has a $25M painting and needs $5M to meet personal current cash needs.
- Museum who will not sell pieces of art and the donor would lose any tax deduction if Museum did not utilize the art as part of its collection.
- Donor wishes to stay anonymous for this sale.
Case Study #2

Have Art, Need Cash

Solution

Donor donates 80% interest in a $25M painting

The Dallas Foundation sells the art

80% used to create DAF & Designated Funds

Donor-Advised Fund

Designated Fund for local museum

20% goes to back to the donor
Case Study #3

Creating a Future Legacy, Today

- Matriarch passes away
- Estate passes business interest to disclaimer trust
- Family wishes to keep control of business interest
- Family wants a philanthropic tool to honor mother today
Case Study #3

Creating a Future Legacy, Today

Solution

Disclaimer Trust → Daughter → Private Family Foundation

Petition Probate to release to public charity today → The Dallas Foundation → Sold business interest to family → Scholarship Fund
Case Study #4

Miami Vacation Home

- Donor wants to support LGBTQ causes
- Donor bought home in 1989 for $750K
- Home now worth $4.5M
- Professional Advisor recommends donating home to avoid capital gains tax
Case Study #4

Miami Vacation Home

Solution

Donor donates Miami Vacation home

The Miami Foundation sells home for $4.5M

Capital Gains Tax Avoidance & Income Tax Deduction

Estate transfers to fund upon donor’s death

Funds are used to establish a field of interest fund

Field of Interest Fund to support LGBTQ causes around the country in perpetuity
Case Study #5

Corn Pops, Taxes Drop

- Large Ohio farmer wants to lower taxes
- High corn prices - wants to avoid realized income from selling corn outright
- Professional Advisor suggests a donation of corn
- Wants to support non-GMO research at alma mater
Case Study #5

Corn Pops, Taxes Drop

Solution

Donor surprises Foundation with gift of corn

Immediate tax deduction to the donor

Greater Cincinnati Foundation sells the corn using a commodities broker

Funds used to establish a DAF

Donor-Advised Fund

Grants to alma mater for research

Purchases Asset Replacement Life Insurance to benefit family
Case Study #6

Legacy in Sonoma County

- Two brothers are named in father’s estate to establish a family foundation under the father’s name.
- Assets include cash, a life insurance policy and small percentages in 7 different LLCs - 1 of which has since gone into bankruptcy.
- Brothers wish to learn more about their father’s legacy.
- Local Community Foundation did not have the necessary expertise to accept complex gifts.
Solution

Father passes away - estate enters probate

Private Foundation? NO

Donor-Advised Fund? YES

Assets are transferred to the Donor-Advised Fund at the Community Foundation of Sonoma County

Charitable Solutions

Dechomai Foundation
Contact Us

Gary Garcia
Senior Director of Development
gwgarcia@dallasfoundation.org

Rod Riggins
Advisor Relations Officer
rriggins@dallasfoundation.org

214-741-9898
dallasfoundation.org