Securing Donations of Appreciated Stock at Year End

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DISCUSSION TOPICS

DONOR INTERACTION

COVID IMPACTS

TYPES OF GIFTS

WHAT TO DO AFTER THE GIFT IS RECEIVED
Donor interaction in a changed environment
Do you know your donor base?
- Is your donor universe able to make this type of gift?
- Likely targeting those nearing or at retirement

Interaction Preference
- In-Person
- Online

What is the ask?

Why Appreciated Securities vs other property?
- Tax advantages for the donor
- Ease of transition

Why did this solicitation stop?
- One of the predominant development asks in the late 90s
- Lost Decade
- Competing with DAFs
Advancing markets and the impact on donor capabilities
The Lost Decade – Why the Appreciated Stock Conversation Stopped

Select Asset Performance, January 2000-December 2009 - %

- S&P 500: -9.1%
- MSCI U.S. IMI: -3.0%
- MSCI U.S. Value: 6.3%
- MSCI World ex-U.S. IMI: 21.8%
- MSCI EM IMI: 144.5%
- MSCI ACWI IMI Core RE: 131.4%
- Cash: 32.4%
- Gold: 278.5%
- Bloomberg Barclays U.S. TIPS: 109.9%
- Bloomberg Barclays U.S. High Yield: 94.3%
- Bloomberg Barclays U.S. Agg: 84.7%
COVID-19: Daily Cases and Mortalities

**UNITED STATES**

- Daily cases (5-day moving average, left-hand side)
- Daily mortalities (5-day moving average, right-hand side)

**DEVELOPED EX-UNITED STATES**

**EMERGING MARKETS**
COVID-19 begins to make headlines as cases start to spread in China.

European Union finance ministers agree to a €540 billion coronavirus rescue package.

Oxford-AstraZeneca vaccine trial results in positive preliminary data.

After a counting delay due to a record number of mail in votes, Joe Biden wins the 2020 presidential election.

Equity markets begin sharp decline into bear market; marking the end of the post-global financial crisis bull market.

Congress passes new fiscal relief supplement to the CARES Act worth $484 billion aimed at replenishing funds for small business and hospitals.

The European Union agrees to a €750 billion stimulus package to support countries damaged by COVID-19.

The U.K. becomes the first western country to distribute the COVID-19 vaccine.

The Senate passes a $2.2 trillion fiscal stimulus package to support individuals and companies impacted by COVID-19.

The European Central Bank expands its Pandemic Emergency Purchase Program by €600 billion, extending the program into 2021.

The COVID-19 pandemic death toll reaches 1 million globally.

Congress reaches a final agreement on a $900 billion pandemic relief package.
GLOBAL EQUITIES PERFORMANCE

TOTAL RETURNS OF GLOBAL EQUITY MARKETS, LAST DECADE (SET TO 100)

- United States
- All countries including frontier markets
- Developed ex-U.S.
- Emerging
- Frontier

# Asset Class Returns – Long Term Appreciation

<table>
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<th></th>
<th>1M</th>
<th>3M</th>
<th>6M</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y*</th>
<th>5Y*</th>
<th>10Y*</th>
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<td>Cash</td>
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<td>1.1</td>
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<td>Municipal Bond</td>
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<td>-0.3</td>
<td>1.1</td>
<td>0.8</td>
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<td>High Yield</td>
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<td>U.S.</td>
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WEALTHSOUTH
INSTITUTIONAL SERVICES
Gift types – Appreciated stock gifts vs. Qualified Charitable Distributions
Gifts of Appreciated Stock – What does that mean?

1. Donor accumulates a position in one or a collection of equity holdings.
2. The value of the holdings appreciates over time.
3. Donor initiates a transfer of those holdings to a nonprofit prior to selling.
4. Nonprofit receives the gift, and the transfer creates a tax deduction for the donor.
Gifts of Appreciated Stock – What is the Appeal?

- Donor avoids capital gains while supporting their chosen charities
- Nonprofits provide an outlet for the giving strategy and improve relations with donors

More donor funds available to all nonprofits

• One of the few avenues for capital gain tax avoidance
• Nonprofits can exploit a somewhat captive tax loophole
**Direct Gift vs Funding a Planned Giving Vehicle**

- These gifts are typically larger in nature.
- Define the type of gift at the outset of the discussion.
- Do you have the support to conduct ongoing maintenance of something other than a direct gift?

**Direct**
- Does organizational support exist to receive the gift and liquidate without exorbitant fees?

**Funding a planned gift**
- Can the organization take on the responsibilities that come with soliciting planned gifts?
PLANNED GIVING AS A PART OF GIFT ACCEPTANCE

- Define planned giving message
- Define administrative capabilities

Which vehicles, CGA, CRT, etc?

- Do we need development support?
- Do we need tax support?

What services apply?

- Are planned giving services included in our agreement?
- Can we leverage our audit into tax assistance?

What are the economies of scale?

- What ancillary services are provided by our partners?
- Can our board support our efforts?

Can our organization’s partners help?
THE PENALTY OF SELLING PRIOR TO GIFTING

Selling Stock

- Stock appreciation treated as realized gain for the donor
- Possible higher fees related to the sale

Gifting Stock

- Full value of stock counts toward gift recognition
- No realized gain
- Transaction fees should be minimal
A qualified charitable distribution (QCD) allows individuals who are 70½ years old or older to donate up to $100,000 total to one or more charities directly from a taxable IRA instead of taking their required minimum distributions.
In lieu of taking a direct RMD, individuals may directly transfer the distribution from an IRA to one or more charities.

Donor must be at least 70 ½.

Maximum amount is $100,000 per individual.

May come from a traditional IRA, an inherited IRA, a SEP, or a Simple IRA.

Can come from multiple IRAs, but cannot exceed $100,000 in aggregate.

IRA custodian must transfer the RMD directly to the charity or issue a check in the name of the charity to the IRA holder.

QCD must occur at the end of the calendar year of the Required Minimum Distribution.

QCD cannot be made to donor advised fund sponsors or private foundations.
If used as a QCD, the Required Minimum Distribution is not reported as income, which could push donors into higher tax brackets.

QCD does not count toward phaseouts of personal deductions and itemized deductions.

It is not always best to use a QCD if the donor already has highly appreciated securities as an alternative.
Other considerations for your organization
INVESTMENT POLICY

PURPOSE

• Document the investment guidelines for the organization
• Establishment of long-term strategy eliminating uncertainty during staff or board turnover
• Create a system of constraints for outside investment manager or internal board or committee management

ITEMS TO CONSIDER

• Proper asset allocation guidelines that meet with organizational needs and risk profile
• A system of ranges allowing decision makers investment flexibility
• Role definition for all involved parties

RESPONSIBILITY TO CREATE

• Discretionary Manager
• Board or Finance Committee
• CFO
PROCESSING AND TRADE EXECUTION

Do

• Engage a partner to receive gifts and execute liquidation at little to no cost
• Use existing financial relationships to scale operations

Don’t

• Set up a new account at the initiating firm
• Sell without consulting your policies
**Gift Acceptance Policy**

**Purpose**
- Provide guidelines for development staff regarding allowable gifts
- Institute a program that insulates the organization against gifts that are not financially viable or may conflict with organizational mission
- Protect staff from being the “bad guy”

**Items to Consider**
- Potential administrative costs that are associated with certain gifts
- Donor profiling to create gift minimums for gifts outside of annual fund giving
- Assignment of partnerships – Legal or Administrative

**Responsibility to Create**
- Development Coordinator
- Consultant
- Board or Finance Committee
II. INVESTMENT REVIEW AND IPS CREATION

ADDITIONAL POLICY CONSIDERATIONS

- Gift is not an allowed holding per organization policy
- Donor is restricting use of appreciated gift
- Organization cannot sell the gift

Allowed investments per the Investment Policy Statement
Questions?

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