GETTING PERSONAL: Firms Outsource Real-Estate Donations

By Kaja Whitehouse
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NEW YORK (Dow Jones)--If you give to charity through a bank or brokerage firm, you may have more opportunity to consider gifts of real estate and other illiquid assets.

Donations of real estate and other tangible assets have become increasingly popular in recent years due to fluctuations in the stock market and tax-rule changes that provide bigger tax breaks to donations of non-cash gifts.

Not wanting to be left behind, commercial banks and brokerage firms that run charitable-giving programs are increasingly looking for ways to allow donors to give more than just cash and securities. Since these firms specialize in stocks, bonds and mutual funds, however, many of them are choosing to outsource the often complex and time-consuming task of liquidating hard assets.

Brokerage firm Charles Schwab Corp.'s (SCH) charitable-giving arm just teamed up with Charitable Solutions LLC, an Atlanta company that helps people donate hard assets to charity. Mutual-fund firm Vanguard Group suggested in a recent newsletter that donors consider Charitable Solutions and competitor Donation Exchange if they want to give gifts of real estate, closely held stock or limited partnerships.

Citigroup Inc. (C), meanwhile, has turned to a local charitable foundation to help them with the task of accepting illiquid assets. Last year, the firm teamed up with the Community Foundation Silicon Valley when it launched its donor-advised fund for high-net-worth people, in large part because the foundation had expertise in accepting complicated non-cash gifts.

"We kept getting more and more requests from donors who were interested in this," said Kim Wright-Violich, president of the Schwab Fund for Charitable Giving program in San Francisco. "But we have no expertise outside of securities and mutual funds."

For securities firms, outsourcing this task is usually driven by lack of experience with assets other than securities. Also, partnerships with outside liquidation organizations are often unofficial, resulting in little or no legal liability to financial firms if the transactions turn sour.

Both Charitable Solutions and Donation Exchange, of San Juan Capistrano, Calif., opened for business last year. Since then, the companies say they have been flooded with requests to help charities and charitable foundations assist donors with the sale of illiquid assets. In that short time, Charitable Solutions has dealt with everything from a seat on the New York Mercantile Exchange to the sale of costly quarter horses.

The Community Foundation Silicon Valley, meanwhile, has just launched a new arm to focus solely on real estate donations, said Mari Ellen Reynolds, director of development. And Fidelity Investments, the first financial firm to open a donor-advised fund in the 1990s, responded to increased demand for gifts of illiquid assets by publishing a brochure that guides donors through the process.

Last year, the argument in favor of hard donations was given a boost when the Bush administration cut the top long-term capital gains rate on stocks to 15% from 20%. The top capital gains rate on tangible assets, on the other hand -including collectibles and art (although not real estate) - remained at a high of 28%. Meanwhile, stocks have been falling in price while real estate assets have benefited from skyrocketing price increases.

If you're considering donating tangible assets, understand that it can be a complex process. Also, you could be turned away if your asset presents risks, like a property that requires environmental clean-up. Charities and charitable foundations may also be reluctant to accept assets that can be hard to turn around quickly, especially when it comes to real estate.

Also, be prepared to pay for transaction costs out of pocket, including the cost of the appraisal and sometimes attorney's fees or a title search. Some organizations will deduct the costs directly from the sale, reducing the out-of-pocket expenses, but there could be an added administrative charge in these cases. Charitable Solutions, for example, takes between 1% and 8% of the net sales for liquidating assets, a fee that is based on the size of the asset involved.

Finally, keep in mind that while the higher 28% capital gains rates on tangibles makes donations of hard items seem attractive, the charitable deduction you get could be minimal if you paid little for the item in question. That's because IRS rules state that when you donate anything other than cash, securities and real estate, you are limited to a deduction on that gift at "basis," or what you paid for it - unless the fair market value happens to be lower.

For a lot of people, this discovery will prevent them from donating an illiquid asset, said Dave Csira, president of Donation Exchange. Csira recently dealt with a case in which a woman wanted to donate an heirloom diamond ring worth about $700,000. But since the family had paid just $10,000 for the product, she would only get a deduction on the lower $10,000 amount. In the end, the woman decided against the donation because of the tax deduction, Csira said.

(Kaja Whitehouse is one of four Getting Personal columnists who write about personal-finance issues ranging from new tax proposals to education-funding strategies to estate planning.)

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