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Keep the Stock, Donate the Beans

As donors try to stay liquid, they look for strategies to give away other types of assets

By VERONICA DAGHER

Earlier this year, an Iowa farmer called up nonprofit consultant Bryan Clontz looking to donate 15,000 bushels of soybeans to charity.

Mr. Clontz got a quote from a local commodities broker, and all told, the farmer ended up donating about $150,000 of soybeans to his alma mater through a donor-advised fund. The farmer got a tax deduction for more than half of his donation and paid no capital-gains taxes.

Beans, a Boeing 747, $800,000 of trees and a Mexican beach house are just a few of the alternative assets Mr. Clontz has helped steer into donor-advised funds recently as wealthy individuals increasingly decide to keep more of their liquid securities instead of making them part of charitable giving. Entrepreneurs whose wealth is derived largely from privately held stock also are using alternatives as a way to give back without getting slammed by taxes.

"Donors understand there's more need now than ever, but they're saying, 'Don't touch my liquidity,' " says Mr. Clontz, who owns Charitable Solutions LLC, a Jacksonville, Fla., firm that helps charities reduce the risk of accepting alternative assets.

Growing Interest

A donor-advised fund is a charitable vehicle where a donor can invest a portion of his or her wealth and use the fund to make grants to other charities, such as an alma mater or soup kitchen. Alternatives are still a small percentage of overall contributions to such funds, but more advisers and wealthy investors are showing interest. Most major donor-advised funds at least consider accepting assets other than cash and securities.

Fidelity Charitable, the largest national donor-advised fund by assets, with $5 billion at the end of September, has seen donations of alternative assets rise to 9% of overall contributions, or $64 million, through the first nine months of 2011, up from 2% a year earlier. Schwab Charitable Fund has also seen an increase in donations of alternatives over the same period.

Amid the current economic uncertainty, some donors are becoming more strategic about their charitable contributions, says Ken Nopar, director of market development at Strategic Philanthropy Ltd., a Chicago philanthrophic advisory firm.

Instead of drawing on the most appreciated stocks in their portfolios, as many financial advisers recommend, Mr. Nopar says his clients are increasingly using assets they may not routinely consider to be a key part of their overall wealth. These often include real estate, art, collectibles, retirement accounts, life insurance, company stock or even, in the case of one of Mr. Nopar's clients, a historic ship.

"Alternative assets have provided a means for some clients to make a larger gift than they may have made if they were solely relying on an equity portfolio," Mr. Nopar says.

The process some donor-advised funds follow in order to accept an alternative asset varies by fund provider and sometimes by type of asset. But funds typically ask the donor to obtain an objective valuation of the asset. The IRS requires this to determine the value of any tax deduction for a charitable gift. "It's more complicated than donating 100 shares of publicly traded appreciated stock," says Karla Valas, managing director of complex asset donations at Fidelity Charitable.

Still, the tax benefits can be worth the extra effort. Andrew Kyriacou, a managing director at Boston-based tax-planning and consulting firm WTAS LLC, has encouraged several private-equity clients this year to donate stock in privately held companies. These types of shares often have an effective zero-cost basis, so selling them would incur a sizable capital gain.

Many charities won't accept privately held stock. But if someone selling his or her business gives such shares to a donor-advised fund after a letter of intent for sale but before the required 50% of shareholders have voted in favor of the sale, the gain has not "ripened," says Mr. Kyriacou. The donor then can avoid capital-gains taxes and typically receive a larger tax deduction.

This strategy recently saved one client about $200,000 in capital gains, he says. "The charities received more and the government got less," he says.

No Dumping

Market volatility and retiring baby boomers have driven some of the increase in these types of donations. But some potential donors are simply trying to unload an undesirable asset, often without success.

That was the case when Mr. Clontz received a call from someone wishing to donate a 12-unit apartment complex. Six units were vacant and destroyed, three had zoning issues, and the other three had been taken over by drug dealers. The potential donor admitted he couldn't handle the property anymore and just wanted to give it away.

"I reminded him that a donor-advised fund isn't a giant albatross," says Mr. Clontz.

Ms. Dagher is a reporter for Dow Jones Newswires in New York. She can be reached atveronica.dagher@dowjones.com