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Private Foundations Bulletin

Maximizing the Benefits of Highly Appreciated Securities

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Private foundations play a critical role in philanthropy, and their ability to maximize impact depends heavily on managing and growing financial resources. Many foundations are initially established with contributions of the founder's own securities. The basis of these securities is generally the donor's basis (i.e., carry-over basis), although alternative calculations may apply in some cases. Over time, these securities may appreciate in value, potentially resulting in significant realized gains and excise taxes owed, if sold. While liquidating securities is a common strategy to fund grant-making activities, foundations also have the option to donate highly appreciated securities.

Calculation of Taxable Basis

In most cases, the basis a foundation uses to determine the taxable basis for donated securities is the donor's basis, also known as the carry-over basis. However, in certain situations, a foundation's taxable basis for donated securities is determined as follows:

1. Securities acquired from a decedent receive a "step-up" in basis to their fair market value on the date of the decedent's death.

2. Securities acquired from a charitable lead annuity trust (CLAT) have a basis equal to their fair market value on the date of donation, as the CLAT has already paid tax on the gain.

3. For property owned before Dec. 31, 1969, and held continuously thereafter, the basis for determining gain follows Internal Revenue Service (IRS) rules and is the greater of:

    1. The fair market value of the property on Dec. 31, 1969, plus or minus all adjustments made after 1969 and before the date of disposition if the property was held by the private foundation on that date and continuously thereafter until disposition, or

    2. The property's basis on the date of disposition under normal basis rules (actual basis).

The basis of securities acquired by gift after Dec. 31, 1969, is the donor's basis at the time of the donation. It is important for a private foundation to keep a record of the donor's original cost basis to ensure proper tax is paid.

Benefits of Donating Securities

Donating highly appreciated securities often provides private foundations with greater tax benefits than cash donations while also maximizing their charitable impact.

- *Minimization of federal excise tax -* By donating these securities to another organization, a private foundation can minimize federal excise taxes owed, as the securities' taxability is essentially passed along to the receiving organization.

- *Cash savings* - The fair value of the appreciated securities counts toward meeting the 5% minimum distribution requirement, reducing the need to spend cash to meet the annual requirement.

In summary, donating highly appreciated securities provides private foundations with a tax-efficient way to extend their philanthropic impact over the long term without depleting cash reserves.

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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