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While most planned gifts are funded with a single asset, typically cash or a single block of long term appreciated securities, it is not unusual for a donor to create a planned gift using a combination of assets. The combination might be a single block of long term appreciated securities plus cash, or a block of long term appreciated securities plus a block of short term appreciated securities, or cash plus long term appreciated mutual fund shares and short term appreciated mutual fund shares.

While all of the asset mixes mentioned above can be excellent sources for funding a planned gift, they also pose a challenge to gift planners who want to help the donor determine the available charitable deduction. In the case of a charitable gift annuity, they also complicate determining the taxation of the annuity payments over the life of the agreement.

Computing the deduction for gifts funded with a combination of assets

Before we discuss how to compute the deduction for a planned gift funded with a combination of assets, we need to establish how the deduction is computed for each of our three asset types.

Cash: The deduction for a planned gift funded with cash is based on the face amount of the cash. If a donor funds a gift annuity with a \$10,000 check, the deduction is based on a \$10,000 gift amount.

Long term appreciated property: The deduction for a planned gift funded with appreciated property held by the donor “long term” (i.e., for more than 12 months) is based on the fair market value of the property on the date of gift. In the case of publicly-traded stock, this would be the value of the shares on the date of gift based on the average of the high and low share price on that date. For example, if a donor funds a charitable remainder unitrust with stock that cost the donor \$50,000 some years ago and now is worth \$250,000, the deduction is based on a \$250,000 gift amount.

Short term appreciated property: The deduction for a planned gift funded with appreciated property held by the donor “short term” (i.e., for 12 months or less) is based on the donor's cost basis in the donated property, or its fair market value on

the date of gift, whichever is less. For example, if a donor funds a deferred gift annuity with stock that the donor purchased for \$150,000 nine months ago and now is worth \$250,000, the deduction is based on a \$150,000 gift amount.

Multiple property types: With the deduction rules in mind, it is actually straightforward to compute the deduction for a gift that is funded with a combination of any of these assets. You simply apply the rules for each funding component separately and then add the results together.

For example, suppose a donor funds a gift annuity with long term appreciated stock that cost the donor \$4,000 and is now worth \$9,500, plus \$500 cash to bring the total funding amount to \$10,000. The deduction for this gift would be based on the fair market value of the stock on the date of gift plus the face value of the cash: a \$10,000 gift amount.

What if the donor had held the stock for 12 months or less? The stock would be *short term* appreciated property and instead of adding its fair market value on the date of gift to the face value of the cash, you would add the donor's cost basis (\$4,000) to the face value of the cash (\$500). The deduction would be based on a \$4,500 gift amount instead of a \$10,000 gift amount.

Computing the taxation of payments for a gift annuity funded with a combination of assets

Before we discuss how to compute the payment taxation for a gift annuity funded with a combination of assets, let's establish how the payment taxation is computed for each of the three asset types.

Cash: The payments made by a gift annuity funded with cash are taxed partly as ordinary income and the rest is considered tax-free return of principal. This treatment lasts for the annuitant's life expectancy, after which payments are taxed entirely as ordinary income.

Long term appreciated property: The payments made by a gift annuity funded with long term appreciated property typically are taxed partly as ordinary income and partly as capital gain income, with the rest considered tax-free return of principal. This treatment lasts for the annuitant's life expectancy, after which payments are taxed entirely as ordinary income. We say "typically" because the donor must also be the annuitant for the capital gain to be reported this way. While this is usually the case, there are instances where the annuitant is the donor's

spouse, sibling, or someone else, in which case the donor must report all realized capital gain in the year of the gift and the taxation of annuity payments then looks like the gift was funded with cash.

Short term appreciated property: The payments made by a gift annuity funded with short term appreciated property follow the same rules as for long term appreciated property. However, realized short term capital gain is taxed at ordinary income rates, so the capital gain component of the payments can be lumped together with the ordinary income component rather than reported separately.

Multiple property types: The approach to computing the taxation of payments for a gift annuity funded with a combination of assets is similar to computing the deduction. First, compute the taxation of payments as if the gift annuity were funded with each component alone. Second, add together the payment taxation for each component.

Using our earlier example, suppose a donor funds a gift annuity with long term appreciated stock that cost the donor \$4,000 and is now worth \$9,500, plus \$500 cash. You would first compute the taxation of payments for a gift annuity funded with just the stock - \$9,500 value with a \$4,000 cost basis - and separately for a gift annuity funded with \$500 cash. Then, you would add the components of the two payment taxation schedules together to get the final result. Alternatively, you could reach the same final results by adding the \$500 cash to both the cost basis and fair market value of the stock and then computing the taxation of payments just once based on property with a cost basis of \$4,500 and a fair market value of \$10,000.

Either of these approaches - computing payment taxation for each component and then adding the results, or adding the cash to both the cost basis and fair market value of the property and then computing payment taxation also can be taken when computing the deduction for a gift annuity funded with short term appreciated property plus cash. The only difference is that the capital gain component of the annuity payments will be taxed at ordinary income rates rather than the lower capital gain rates.

By contrast, when a donor funds a gift annuity with long term appreciated property and short term appreciated property, with or without some cash thrown in, the only way to keep the long term gain and short term gain portions straight is to compute the payment taxation for each component separately and then combine the results.

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