Advisor's Quarterly

Article for Major Gift Officers

Discovering and Qualifying Assets for Charitable Gifts

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A previous *Advisor's Quarterly* article introduced the acronym PAPPA as a tool to help development officers remember to listen for key information when meeting with a potential donor. PAPPA stands for "People, Assets, Passions, Plans, and Advisors." This article focuses on the assets donors own.

Cash and publicly traded securities are the most common assets used to fund charitable gifts. Successful development officers often explore with a donor whether other assets—perhaps assets the donor might never have considered in the context of a charitable gift—could better accomplish the donor's objectives. In some cases, using an asset other than cash or publicly traded securities can enable the donor to make a larger gift than would otherwise be possible. When meeting with a potential donor, it can be useful to think of two levels of questions to ask when determining if there are other assets that might be suitable for a charitable gift. First level questions are designed to discover assets the donor owns. Second level questions are intended to learn more about an asset and to qualify it for a potential gift.

Discovery Questions

Asset discovery can be accomplished in normal dialogue with a donor. By listening and observing, much can be learned about the donor, his interests, and the assets he owns. Actively noticing the surroundings and décor of his office or home can reveal valuable information about the donor, his priorities, and his passions. Being genuinely curious and asking questions about what you see and hear in a conversation will naturally lead to additional information. Broad, open-ended questions are good tools for discovery. A few sample discovery questions appear in Table I.

The conversation might reveal the donor's experience investing in the stock market or ownership of a closely-held business or real estate such as a vacation home. Following up on some of these items can deepen your knowledge and understanding of the donor and his assets. For example, if a donor mentions a vacation home, a gift officer might follow up by asking: Where is it located? How long have you enjoyed it? How much time do you spend there? Answers to these questions might reveal the gift potential of the asset. Even if the asset is not considered for a gift now, circumstances might change. Because of this, it is important to record as much information as possible about the donor's assets in a call report for future reference.

Table I—Sample Discovery Questions

- What do you think of the recent performance of the stock market?
- Tell me more about your business.
- What activities do you enjoy [in your spare time or since you retired]?
- My family vacationed [at a beach house/at the lake/at a cabin]. I have a lot of fond memories of those times. Where has your family enjoyed vacationing?
- I noticed that you have a collection of [insert name of collectible]. What got you interested in ______ ?
- We recently worked with a donor who made a gift of [appreciated stock/real estate/artwork/a business interest]. It worked out well. Would something along that line be of interest to you?

Qualification Questions

Once an asset has been identified, a deeper level of inquiry is necessary to begin the process of qualifying that asset as a viable charitable gift. Development officers can sometimes be reluctant to engage in this deeper level of inquiry out of fear of not being an expert in the type of asset. This fear is unfounded because the typical donor does not expect an immediate evaluation from the development officer on the appropriateness of the asset for a gift. Others might be concerned that qualification questions are an invasion of the donor’s privacy. Of course, it is always important to establish a sense of trust with a prospective donor and to ask questions tactfully. But most major gift officers are experts in these types of discussions. Moreover, detailed qualification questions are often asked after the donor has indicated an interest in exploring a gift of a particular asset. In a sense, the donor has given the gift officer permission to learn more about these potential gift assets, and at that point, curiosity and good listening become the keys to success.

Similar in concept to the PAPPA tool, a helpful framework to use when meeting with a donor to start qualifying potential gift assets is the acronym IPOD. IPOD consists of information, plans, ownership, and debt.

Information about how and when the donor acquired the asset, the estimated value of the asset, and any marketability concerns is helpful when evaluating the asset. It is useful to gather information specific to the type of asset the donor describes. For example, if it is rental real estate, how many tenants does it have and what types of leases? If a business, what goods or services does it sell and how many employees does it have? If tangible personal property, who created it, how is it stored and is it insured?

Plans that the donor might have for the asset are informative when considering both the structure of a gift and how to best liquidate the asset after a completed gift. Conversations around the donor’s plans will inform how much control the donor might want over the eventual sale of the asset, if there are any family members or business associates that might purchase the asset from the charity, and how whether there are any emotional attachments to the asset.

Ownership of the gift asset determines who the donor is from a legal standpoint. Asking how the asset is titled, if there are other owners, and, if a business interest what is its legal structure, will be helpful in determining the donor of the asset and assessing methods of transfer. Part of ownership is overseeing the asset. Asking about the management and oversight responsibilities can help set expectations with the donor after the asset is transferred.

Debt attached to an asset creates challenges when the asset is gifted. Therefore it is important to learn if the donor owns the asset “free and clear” of any debt. If there is debt associated with the asset, understanding the amount of debt and how long the debt has been in place is helpful in further evaluation of a gift.

The IPOD framework helps gift officers consider these types of questions while also providing a framework to help remember the donor’s responses. Information gathered through qualification questions will help others at your institution evaluate a potential gift. There can be obstacles associated with certain assets—some of which might be overcome and others of which might disqualify the asset for certain gift options. Being curious and gathering as much of IPOD as possible will allow for a more thorough evaluation of the asset and will help inform the strategy for working with the donor on a gift plan. A few sample qualification questions appear in Table II.

Table II—Sample Qualification Questions

- How did you acquire the asset and how long have you owned it?
- What do you think it is worth? Has it recently been appraised or listed for sale?
- Will your family be involved with the asset in the future?
- If gifted, do you want to be involved in the sale; do you feel strongly about any future buyers?
- How is the asset titled? Are there other owners of the asset; and if so, what is your relationship with them?
- If a business interest, what is the legal structure of the business?
- Is there any debt on the asset or within the business?
- If debt, how long ago was the debt created?

Table III—Gift Assets Matrix

Asset	Current	Charitable Trust or Gift Annuity	At Death
Cash			
Publicly Traded Stock & Mutual Funds			
Retirement Plans (IRA, 401k)	QCD		
Real Estate (Including Mineral Interests)			
Closely Held Stock			
Tangible Property (Art, Stamps, Crops, Timber)			
Restricted Stock (144)			
Partnership Interests			
Natural Resources			
Intellectual Property (Copyrights, Patents)			
Virtual Currencies			
Alternative Investments			
Commercial Annuities			
Stock Options			
U.S. Savings Bonds			
Master Limited Partnerships			

Three Ways of Giving

There are three general ways an asset can be given: as an outright gift, to fund a life income gift, or as an estate or testamentary gift. Some assets are suitable for all three gift types, while others might be limited because of legal, tax, or other issues. Table III lists potential funding assets and categorizes them as to whether they are simple or more involved to evaluate, accept, and transfer either as an outright gift or to fund a life income gift—or whether they should only be considered for gifts at death.

Cash and publicly traded stock are the most flexible assets and may be used for any gift type. More complex assets such as real estate and tangible personal property (e.g., artwork, rare books) require further evaluation to determine whether they are suitable gift assets. Charitable remainder trusts can be a good gift option for some complex assets. For example, if a donor has income-producing real estate and wants to make a gift of the property but cannot afford to give up the income, a charitable remainder trust might be a good solution.

Other assets such as IRAs, commercial annuities, and stock options have limitations because of the income tax implications of a lifetime transfer. These assets are impractical for gifts during life but are often suitable as testamentary gifts. (An exception to this rule is an outright gift through the IRA Qualified Charitable Distribution [QCD] which was made permanent through the Consolidated Appropriations Act of 2016.)

When evaluating complex assets, you can call on your colleagues for support. Your director of gift planning, professionals in your real estate and/or finance offices, and your TIAA Kaspick relationship manager are all available to help determine what additional information might be needed for gift acceptance purposes and to reach a decision with the donor. ■