

Why cash is not king in fundraising

Data on the power of asset gifts from 1 million nonprofit tax returns

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Presenter

- Directs the on-campus and online graduate program in Charitable Financial Planning (planned giving)
- Has published research in over 40 different peer-reviewed scientific journals
- Quoted on charitable and financial issues in a variety of news sources including: The Economist, The New York Times, The Wall Street Journal, CNN, MSNBC, CNBC, ABC News, U.S. News & World Report, USA Today, the Associated Press, Bloomberg News and the Chronicle of Philanthropy

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CAUTION

This presentation is different

War stories

This worked for me once

Massive data

Over 1 million e-filed nonprofit tax returns

You wish it were true; so I'll tell you it is, and you'll be happy.

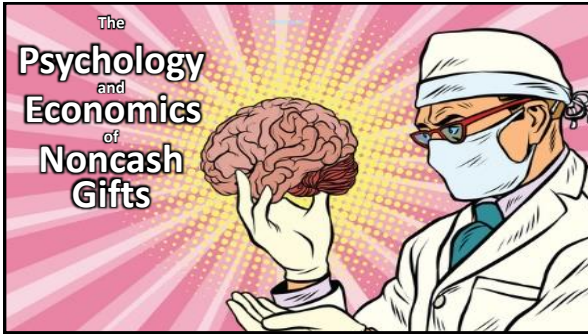
How about a nice cup of reality?

"Best" practices

What big organizations do

Best practices

What growing organizations do differently

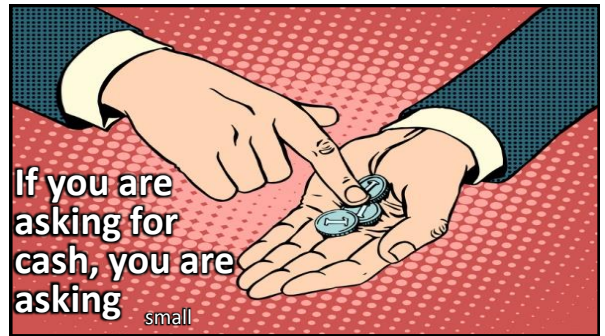
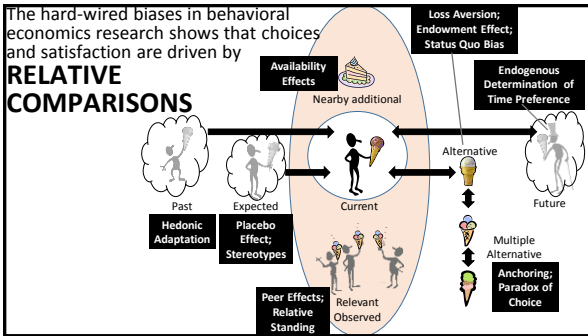


WHY?

Asset gifts

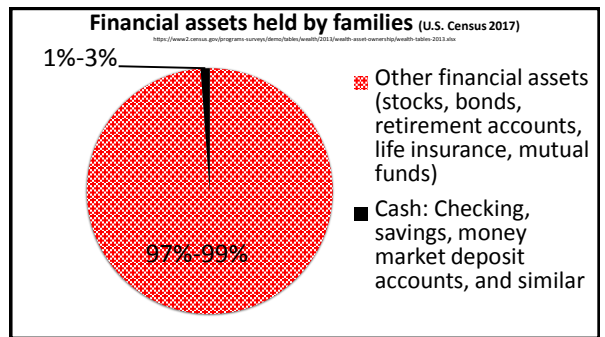
- feel relatively smaller
- remind us of our wealth
- mentally reclassify assets as donation relevant
- reflect donor-centeredness
- require fundraiser expertise
- are more social
- are cheaper

Current and future fundraising growth



Wealth is not held in cash.
It is held in noncash **assets**.

If you are asking from the cash bucket, you are asking from the **small** bucket.



Asset gifts feel relatively smaller

“For a wealthy donor, asking for the same gift from assets (where it constitutes a tiny share) rather than from income (where it constitutes a much larger share) may reduce the relative perception of financial loss.”



James III, R. (2017). Natural philanthropy: a new evolutionary framework explaining diverse experimental results and informing fundraising practice. *Palgrave Communications*, 3, 17050. p. 4

Asset gifts remind us of our wealth

Shoppers entering Broadway Market in Cambridge, MA: Would you like to participate in an experiment and receive this free chocolate bar?

Randomly assigned to answer questions

- What's in your wallet/purse? Cash? Credit cards? ...
- Do you own stocks? Bonds? Certificates of deposit? ...

Spent **36% more**



Morowatke, C. K., Holtzman, L., & Epley, N. (2007). Limited resources: Perceived costs, consumption, and the endogenous account effect. *Journal of Consumer Research*, 34(4), 409-417.


People who feel wealthy act charitably

The strongest predictor of donation amount was subjective feelings about one's wealth, not its objective adequacy.

Wiering, P., & Briesch, B. (2012). Feeling poor, acting stingy: The effect of money perceptions on charitable giving. *International Journal of Nonprofit and Voluntary Sector Marketing*, 17(1), 13-24.

Relative comparisons change this feeling. Making college students feel richer by having them report their savings on a scale ranging from \$0 to \$500 rather than \$0 to \$50,000 increased subsequent donations.

Herzenstein, M., & Small, D. (2012). Donating in recessionary times: Resource scarcity and the endogenous account effect. *PLoS ONE*, 7(10), e45000.



Mental accounting


People attach labels to financial assets and then treat them differently



Thaler, R. H. (1998). Mental accounting matters. *Journal of Behavioral Decision Making*, 2(3), 163.


Labeling assets as donation relevant

When a donor makes a gift of a noncash asset, the donation experience can re-categorize that asset class as appropriate for future charitable consideration




Labeling assets as donation relevant

Expanding the total number of budget categories for which a particular charitable donation was arguably relevant increased donations



LaBarge, M. C., & Stearns, J. L. (2014). The role of mental budgeting in philanthropic decision-making. *Nonprofit and Voluntary Sector Quarterly*, 43(3), 495-510.



Irregular unearned gains – like appreciated assets – generate more giving

People are more likely to spend irregular unearned gains (vs. regular earned income) on luxury goods in general and charitable donations in particular (Reinstein & Reiner, 2012; Konow, 2010).


Framing a donation as an exceptional event removes it from comparison with regular disposable income budget items and increases giving (Sussman, Sharma, & Alter, 2015)

Sussman, J. (2010). Moral beliefs: Theories of and evidence on giving. *Journal of Public Economics*, 84(1-4), 279-310.
O'Curry, S. (2008). Consumer happiness and moral accounting. In S. L. Karim & S. W. O'Quinn (Eds.), *The Sage's Handbook of Consumer Psychology and Marketing* (pp. 101-111). Sage.
Harris, G. (2012). Discounting short and long-term effects of a charitable giving experiment. *Experimental Economics*, 15(1), 221-235.
Reinstein, A. H., & Reiner, L. (2012). Charitable giving: The effects of money versus non-monetary incentives. *SP and Identity*, 10(1), 142-155.

Cash is anti-social

Gifts of objects are pro-social

Reminders of cash promote independence and exchange motives, reducing willingness to help and to make donations




Voth, K. D., Meese, N. L., & Goebel, M. H. (2008). Merely activating the concept of money changes generosity and other prosocial behavior. *Current Directions in Psychological Science*, 17(1), 10-14.
Lewin, K., Meese, N. L., Sittman, J., & Voth, K. D. (2014). No match for money: Cash in intimate relationships and subsequent behavior. *Journal of Money, Credit, and Banking*, 46(1), 142-155.

Cash is anti-social

Gifts of objects are pro-social

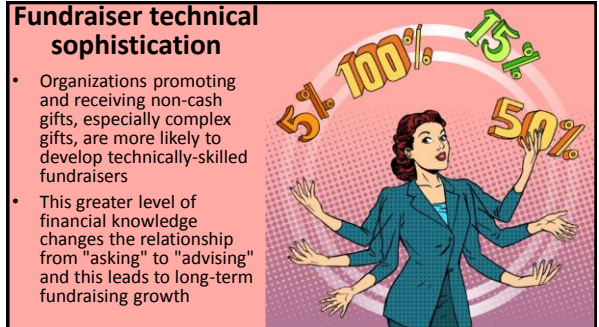
In contrast, gifts of objects are common in social relationships and emphasize communal norms rather than self-interested exchange relationships and exchange norms



Cheal, D. (1987). Showing them you love them: gift giving and the dialectic of intimacy. *Sociological Review*, 25(1), 153-59.

Fundraiser technical sophistication

- Organizations promoting and receiving non-cash gifts, especially complex gifts, are more likely to develop technically-skilled fundraisers
- This greater level of financial knowledge changes the relationship from "asking" to "advising" and this leads to long-term fundraising growth



Fundraiser technical sophistication

- Free 65 video YouTube series
- Direct link: bit.ly/TexasTechProfessor

The Secret to Understanding Planned Giving Part 1: The tools	A Super Simple Introduction to Taxes Part 1: The Basics	Charitable Gifts Part 1: The basics
Documenting Charitable Contributions Part 1: Introduction	Valuing Gifts of Property Part 1: The rules	Income Limits on Charitable Deductions Part 1: Introduction
Bargain Sale Gifts Part 1: Introduction	Charitable Gift Annuities Part 1: Introduction	Taxation of Charitable Gift Annuities 1. Calculating the Deduction
Gifts of Partial Interests in Property Part 1: The role against partial interests	Retained Life Estates Introduction	Private Foundations 1. What are PFLs & DFLs?
Charitable Remainder Trusts 1. Introduction	Charitable Lead Trusts 1. Introduction	Life Insurance in Charitable Planning 1. Wealth replacement

Appreciated asset gifts are objectively cheaper

Donors can give more at the same net cost



Appreciated asset gifts are objectively cheaper

Tax deduction + Avoid capital gains tax

Tax deduction only

Asset gifts are cheaper for itemizers

Donor → **\$100k Cash** → **Nonprofit**

Income tax deduction (\$100,000 x 37%)
\$37,000

Costs \$63,000

Donor → **\$100k Stock** → **Nonprofit**

\$37,000 +
Avoid capital gains (\$90,000 x 23.8%)
\$21,240

Costs \$41,760

Asset gifts are cheaper for non-itemizers

Donor → **\$100k Cash** → **Nonprofit**

~~Income tax deduction (\$100,000 x 37%)
\$37,000~~

Costs \$100,000

Donor → **\$100k Stock** → **Nonprofit**

~~**\$37,000**~~ +
Avoid capital gains (\$90,000 x 23.8%)
\$21,240

Costs \$78,760

Use the new tax law to shift non-itemizers to asset gifts

Donor → **\$100k Cash** → **Nonprofit**

~~Income tax deduction (\$100,000 x 37%)
\$37,000~~

Costs \$100,000

Donor → **\$100k Stock** → **Nonprofit**

~~**\$37,000**~~ +
Avoid capital gains (\$90,000 x 23.8%)
\$21,240

Costs \$78,760

↓

Asset gifts just got EVEN cheaper for many

	2017	2018
Donor → \$100k Cash → Nonprofit	Income tax deduct. (\$100,000 x 39.6%) \$39,600 fed (\$100,000 x 5.27%) \$8,030 state	Income tax deduct. (\$100,000 x 37%) \$37,000 fed (\$100,000 x 13.3%) \$13,300 state
Donor → \$100k Stock → Nonprofit	Avoid capital gains (\$90,000 x 23.8%) \$21,240 fed (\$90,000 x 13.3%) -\$90,000 x 5.27%) \$7,227 state	Avoid capital gains (\$90,000 x 23.8%) \$21,240 fed (\$90,000 x 13.3%) -\$90,000 x 5.27%) \$11,970 state
	Net cost \$52,370 in '18 vs. \$49,700 in '17	Net cost \$16,490 in '18 vs. \$23,903 in '17

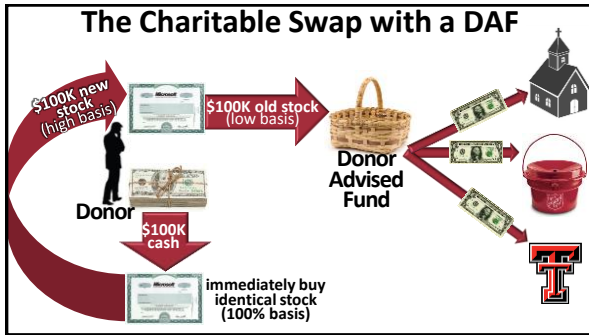
No need to change your portfolio! The Charitable Swap

Donor → **\$100k new stock (high basis)** → **Nonprofit**

Nonprofit → **\$100k cash** → **immediately buy identical stock (100% basis)**

Donor → **\$100k old stock (low basis)** → **Nonprofit**

No "wash sale" rule because this is gain property, not loss property



More good news for charitable deductions

1. Higher state tax benefits with SALT cap
2. Federal rates went up (33% to 35%) for singles earning \$200,000 to \$416,700
3. 2017 charitable tax deduction reduction by 3% of income over \$261,500 [Pease limitation] eliminated
4. Income limits raised to 60% for cash gifts

Reflect real "donor-centeredness"

- Nonprofits promoting non-cash gifts are willing to increase their hassle (*cash is easier for the charity*) to benefit the donor (*gifts of appreciated assets are cheaper for the donor*)
- Action, not just talk

WHY?

Asset gifts

- feel relatively smaller
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Current and future fundraising growth

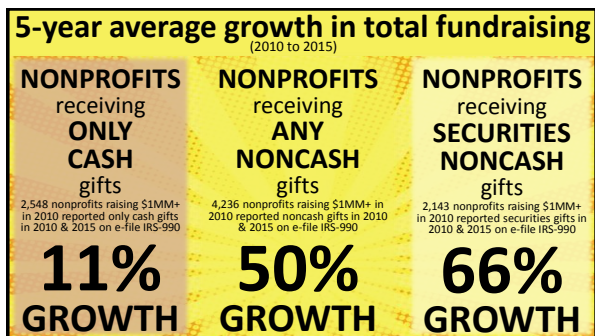
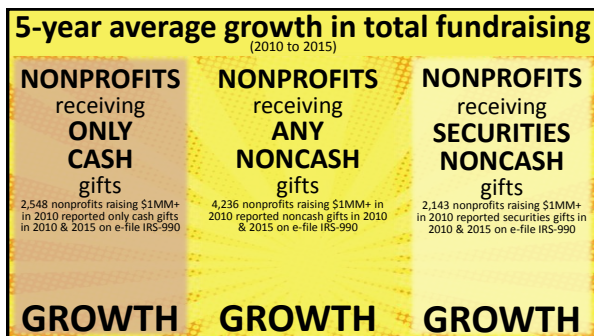
If you just want results, the exact cause might not matter to you

Why this new data is such a big deal

First time IRS released in computer readable format **all** e-filed Form 990s from 2010 forward including 1,055,917 tax returns from 205,696 nonprofits

Let's start with a simple comparison

NONPROFITS receiving ONLY CASH gifts	NONPROFITS receiving ANY NONCASH gifts	NONPROFITS receiving SECURITIES NONCASH gifts



3-year average growth in total fundraising (2010 to 2013; 2011 to 2014; 2012 to 2015; 2013 to 2016)

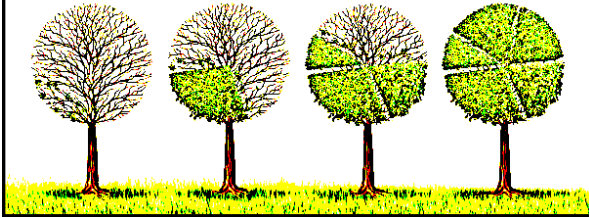
NONPROFITS receiving ONLY CASH		NONPROFITS receiving ANY NONCASH		NONPROFITS receiving SECURITIES NONCASH	
Years	Average Total Fundraising Growth	Years	Average Total Fundraising Growth	Years	Average Total Fundraising Growth
'10-'13	5%	'10-'13	34%	'10-'13	44%
'11-'14	1%	'11-'14	30%	'11-'14	42%
'12-'15	2%	'12-'15	30%	'12-'15	39%
'13-'16	0%	'13-'16	25%	'13-'16	33%



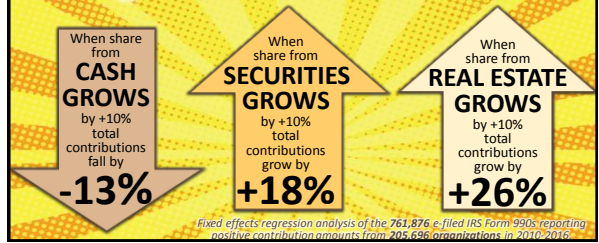
5-year total fundraising growth by initial level of total contributions

	\$100K to <\$500K	\$500K to <\$1MM	\$1MM to <\$2MM	\$2MM to <\$3MM	\$3MM to <\$5MM	\$5MM to <\$10MM	\$10MM+
Nonprofits reporting only cash contributions in 2010 & 2015 on e-IRS 990s	56% [n=9168]	25% [n=2397]	14% [n=1343]	18% [n=478]	0% [n=358]	0% [n=223]	26% [n=146]
Nonprofits reporting any noncash contributions in 2010 & 2015 on e-IRS 990s	137% [n=2278]	71% [n=1373]	60% [n=1215]	58% [n=652]	48% [n=728]	36% [n=679]	35% [n=962]
Nonprofits reporting securities contributions in 2010 & 2015 on e-IRS 990s	400% [n=114]	176% [n=187]	103% [n=340]	94% [n=284]	68% [n=385]	50% [n=427]	43% [n=707]

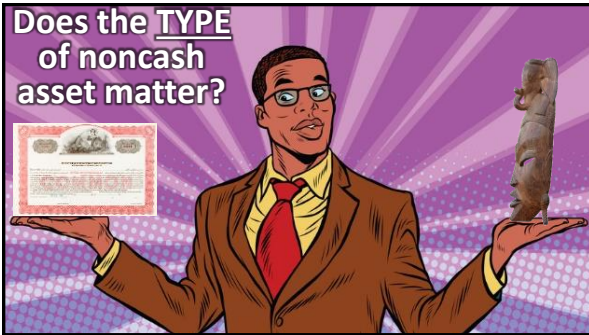
Beyond simply “some v. none,” what happens when nonprofits shift to a larger SHARE of cash or noncash gifts?



What happens IN THE SAME YEAR when gifts shift from cash to assets?



Does the TYPE of noncash asset matter?



Gifts from larger asset types have more impact

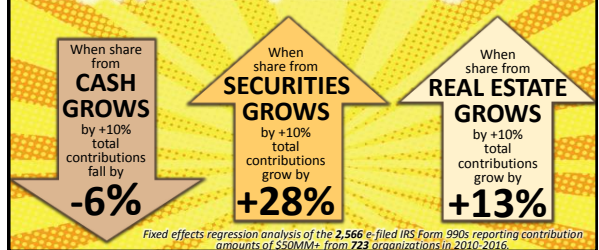
Same year effect of a 10% ratio shift (asset type/total giving) for nonprofits already reporting substantial noncash gifts

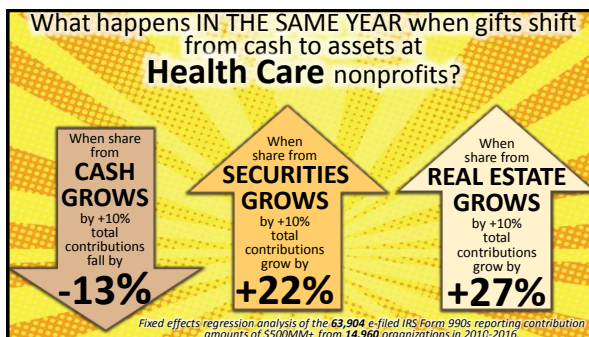
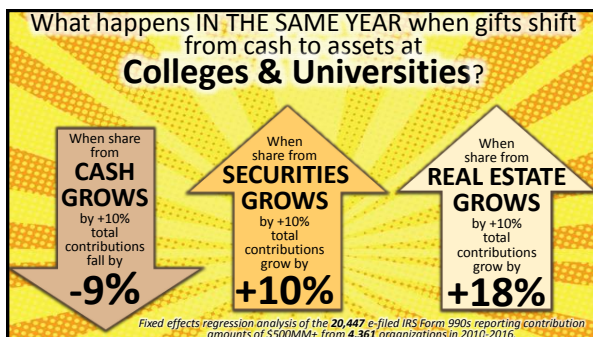
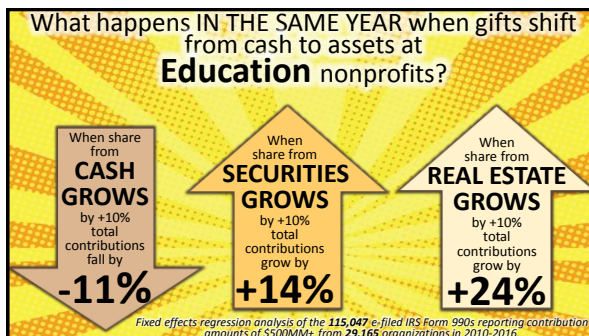
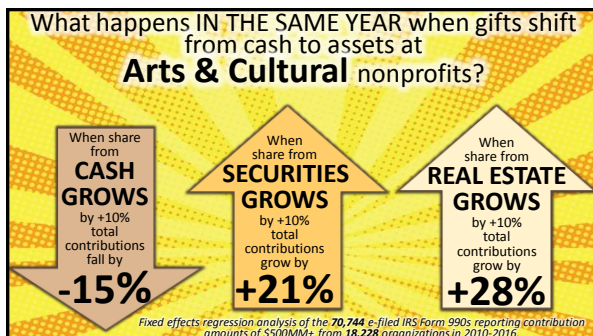
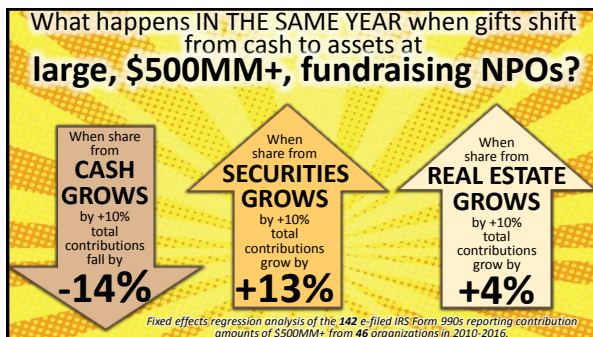
Doesn't help	none/minimal	Books, Food, Collectibles, Uncategorized
Helps a little	+2% to +3%	Cars, Boats, Household goods, Art, Drugs
Definitely helps	+7%	Publicly-traded securities, Historical art & artifacts
Helps a lot	+14% to +18%	Real estate, Non-publicly-traded securities

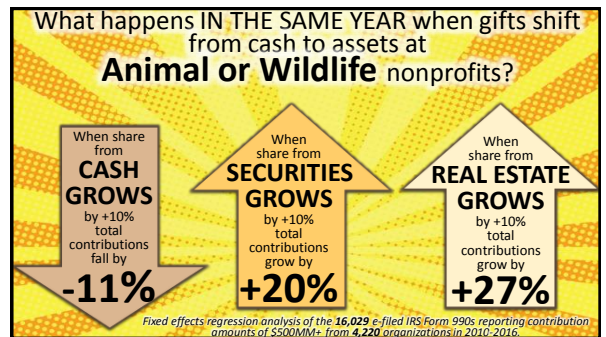
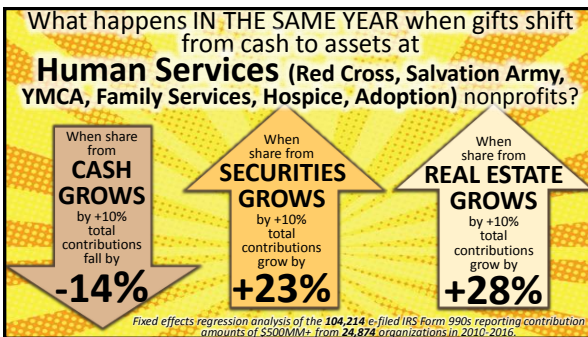
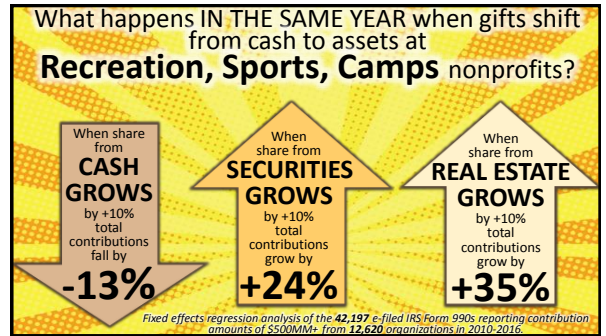
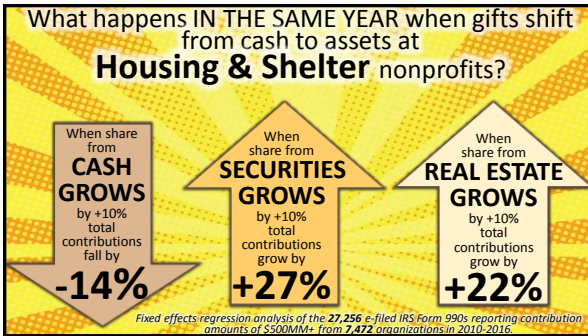
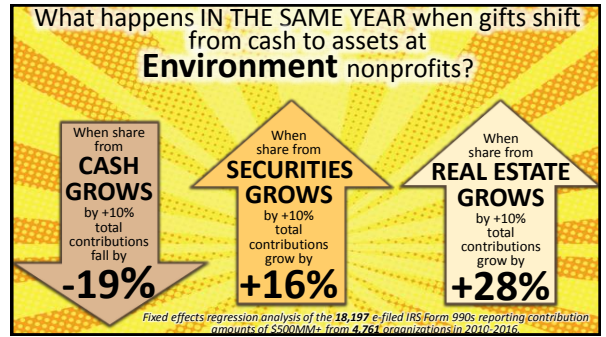
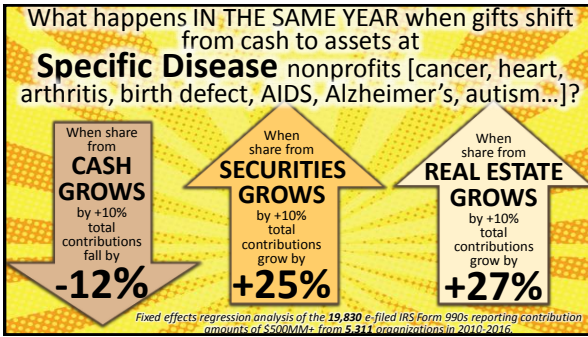
Yeah, but... My organization is different; we are really big and sophisticated

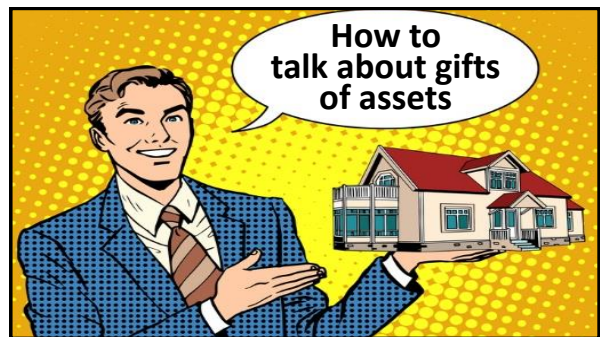
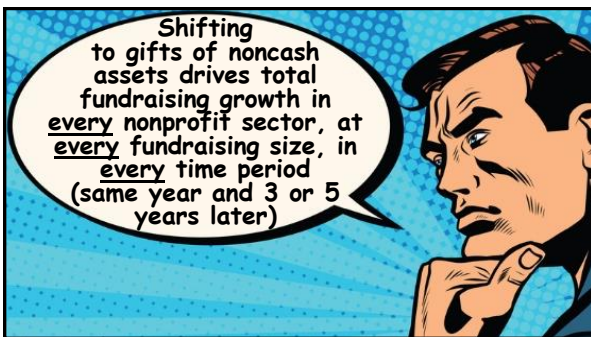
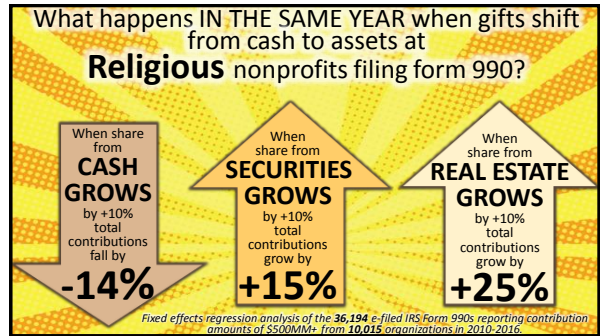
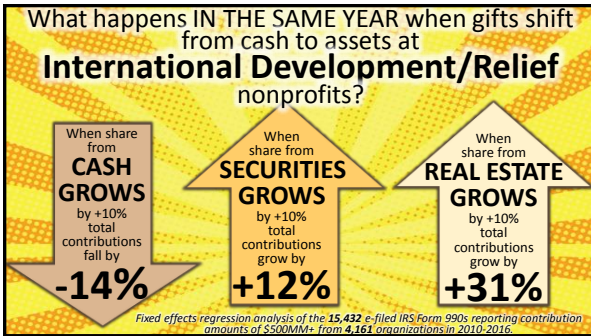
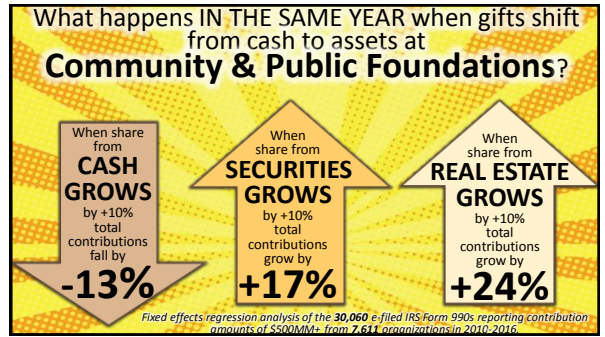
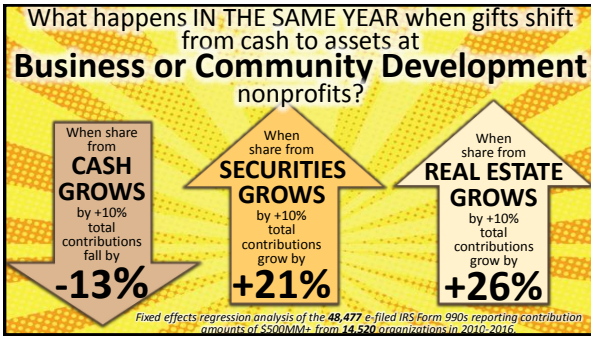


What happens IN THE SAME YEAR when gifts shift from cash to assets at large, \$50MM+, fundraising NPOs?











James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of behavioral finance terms and tax benefits. *Journal of Management and Leadership: Advance Online Publication*. DOI: 10.1002/mlm.l.31302

Mentioning tax deductions increases charitable interest

	Interested Now <small>definitely/somewhat/slightly</small>	Will Never Be Interested
Random assignment	20%	17%
Avoid capital gains tax by making a gift of stocks or bonds to a charity.	33%	23%
Make a gift of stocks or bonds to charity.	14%	23%

1,006 Respondents, Groups 1/2

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of behavioral finance terms and tax benefits. *Journal of Management and Leadership: Advance Online Publication*. DOI: 10.1002/mlm.l.31302

Mentioning tax deductions increases charitable interest

	Interested Now <small>definitely/somewhat/slightly</small>	Will Never Be Interested
Random rotating assignment	50%	8%
Receive a tax deduction and make a gift that pays you income for life.	33%	14%
Make a gift that pays you income for life and receive a tax deduction.	31%	20%

1,904 Respondents, Groups 1/1, F

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of behavioral finance terms and tax benefits. *Journal of Management and Leadership: Advance Online Publication*. DOI: 10.1002/mlm.l.31302

Mentioning tax deductions increases charitable interest

	Interested Now <small>definitely/somewhat/slightly</small>	Will Never Be Interested
Random rotating assignment	26%	23%
Immediately receive a tax deduction for 70% of the value of a house or land by making a charitable gift of the property, but keeping the RIGHT TO USE it for the rest of your life.	12%	33%
Make a charitable gift of either a house or land, but keep the RIGHT TO USE for the rest of your life and immediately receive a tax deduction for 70% of the value of the property.	11%	42%
Make a charitable gift of either a house or land, but keep the RIGHT TO USE it for the rest of your life.		

1,826 Respondents, Groups 1/1, D

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of behavioral finance terms and tax benefits. *Journal of Management and Leadership: Advance Online Publication*. DOI: 10.1002/mlm.l.31302

Mentioning tax deductions increases charitable interest

	Interested Now <small>definitely/somewhat/slightly</small>	Will Never Be Interested
Random rotating assignment	28%	17%
Get an immediate tax deduction by making a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.	27%	20%
Make a gift where you get an immediate tax deduction, still control the investment of the assets and receive income from the investments for the rest of your life with anything left over going to charity at your death.	21%	25%
Make a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.		

1,782 Respondents, Groups 1/1, E

Best phrasing to describe tax benefits



Please rate your level of interest in clicking on the button to read the corresponding information.

I might be/am definitely interested	___%	Avoid taxes by giving stocks
	___%	How to avoid taxes by giving stocks
	___%	Save taxes by giving stocks
	___%	Tax tips when giving stocks
	___%	Avoiding capital gains taxes by giving stocks
	___%	Giving stocks

Please rate your level of interest in clicking on the button to read the corresponding information.


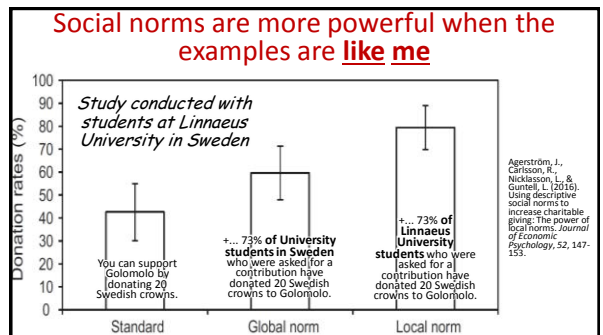
I might be/am definitely interested	28%	Avoid taxes by giving stocks
	27%	How to avoid taxes by giving stocks
	25%	Save taxes by giving stocks
	24%	Tax tips when giving stocks
	24%	Avoiding capital gains taxes by giving stocks
	16%	Giving stocks

Mentioning tax benefits works, but it isn't "the reason"



The power of social norms

Do people like me do things like this?

What "you" would do or what another donor has done?

You make a gift and receive a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of your life.

Gift Annuity

Interested Now
definitely/somewhat/slightly

All: _____%

55+: _____%

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

All: _____%

55+: _____%

Please rate your interest in pursuing the above described charitable giving arrangement.

What "you" would do or what another donor has done?

You make a gift and receive a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of your life.

Gift Annuity

Interested Now
definitely/somewhat/slightly

All: **33.5%**

55+: **23.2%**

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

All: **38.6%**

55+: **38.6%**


Please rate your interest in pursuing the above described charitable giving arrangement.

Text only or text and donor picture?

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

Please rate your interest in pursuing the above described charitable giving arrangement. % Interested now (definitely/somewhat/slightly)

All: _____%

55+: _____%

All: _____%


55+: _____%

Text only or text and donor picture?

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount will go to the charity at the end of her life.

Gift Annuity

Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.



Gift Annuity

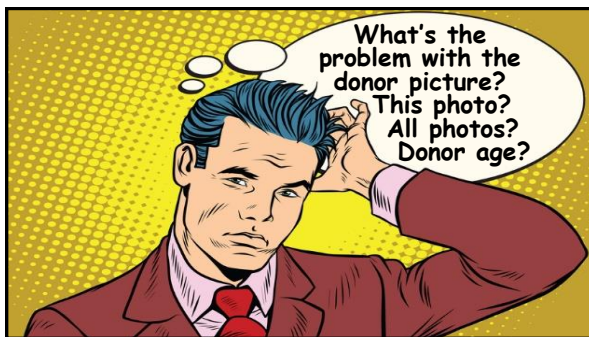
Please rate your interest in pursuing the above described charitable giving arrangement. % Interested now (definitely/somewhat/slightly)

All: **38.6%**




55+: **38.6%**




All: **31.1%**

55+: **29.8%**






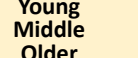
Interested now (definitely/somewhat/slightly)

<p>Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.</p> <p>Gift Annuity</p> 	<p>55+</p> <p>_____%</p>	<p>35-54</p> <p>_____%</p>	<p>U-35</p> <p>_____%</p>
<p>Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.</p> <p>Gift Annuity</p> 	<p>_____%</p>	<p>_____%</p>	<p>_____%</p>
<p>Sara made a gift and received a tax deduction and yearly income for life. Any unused gift amount goes to the charity at the end of her life.</p> <p>Gift Annuity</p> 	<p>_____%</p>	<p>_____%</p>	<p>_____%</p>

		Interested now (definitely/somewhat/slightly)		
		55+	35-54	U-35
	Sara made a gift and received a tax deduction and carry income for life. Any unused gift amount goes to the charity at the end of her life.	24.4%	38.4%	44.5%
	Sara made a gift and received a tax deduction and carry income for life. Any unused gift amount goes to the charity at the end of her life.	22.0%	47.4%	32.6%
	Sara made a gift and received a tax deduction and carry income for life. Any unused gift amount goes to the charity at the end of her life.	41.1%	30.6%	30.2%

How do these compare with text only or a non-donor photo?



		55+	35-54	U-35	All	Age matched donor pictures are OK, otherwise use text only or different pictures
	Sara made a gift and received a tax deduction and carry income for life. Any unused gift amount goes to the charity at the end of her life.	1st 44.4%	3rd 40.1%	3rd 34.7%	1st 40.1%	
	Sara made a gift and received a tax deduction and carry income for life. Any unused gift amount goes to the charity at the end of her life.	3rd 28.3%	2nd 44.6%	2nd 36.4%	2nd 36.5%	
	Sara made a gift and received a tax deduction and carry income for life. Any unused gift amount goes to the charity at the end of her life.	24.4%	38.4%	44.5%	35.8%	
Young	22.0%	47.4%	32.6%	34.0%		
Middle	41.1%	30.6%	30.2%	34.0%		
Older						

Are the examples like me?



New strategies



Accepting noncash gifts is safer today

- Using DAFs that accept any asset type
- Using new instruments like the single-asset LLC





Q&A



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Additional Questions

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In a few days you will receive an email letting you know that the recording and presentation slides are available to access.

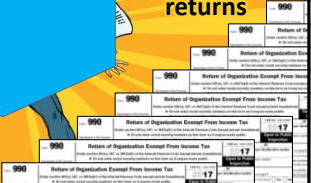
www.stelter.com/webinars

Full technical paper available at ssrn.com/abstract=3126983



Why cash is not king in fundraising

Data on the power of asset gifts from 1 million nonprofit tax returns



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