

Mercy Home for Boys & Girls DONOR ADVISED FUND

(MHBG Donor Advised Fund)

SINCE 1887



MERCY
HOME
FOR BOYS & GIRLS

2016 Income Tax Benefits of Contributing to A Donor Advised Fund

Mercy Home for Boys & Girls Donor Advised Fund (MHBG Donor Advised Fund) is a qualified section 501(c)(3) organization and is classified as a public charity. A contribution to MHBG Donor Advised Fund is eligible for a charitable deduction from your federal income tax. A charitable deduction also is available in many states that have their own income taxes.

Donor advised funds like MHBG Donor Advised Fund offer individuals and corporations a unique opportunity to establish a long-term charitable giving strategy and play an active role in the giving process while still enjoying significant income tax benefits for their charitable gifts.

One hypothetical example: Contributing property that has increased in value to MHBG Donor Advised Fund can be an especially effective tax-planning strategy. Imagine that you purchased stock in a company many years ago

for \$10,000, and the value of the stock has increased over time to \$50,000. If you donated the stock to MHBG Donor Advised Fund, you would be eligible for a charitable deduction for the stock's full fair market value of \$50,000. MHBG Donor Advised Fund's later sale of the stock also would not trigger a tax for you on the \$40,000 of capital gain.

Here is a short form introduction to tax benefits and how to calculate them. Your tax advisors can provide you with more detailed information specific to your own circumstances.

Measuring the Federal Tax Deduction

Although federal tax laws encourage charitable giving, those laws also provide limits so that individuals and for-profit corporations may not offset their entire income through charitable gifts. Determining the deduction involves two steps:

STEP ONE: DETERMINING THE VALUE OF CHARITABLE GIFTS

Federal tax law defines the way in which donors value their charitable gifts at the time of the gift. The valuation method depends on the type of property contributed and, often, how long you have owned it prior to the gift.

- Your donations of cash and long-term gain property (such as securities held for more than one year) are generally valued at their fair market value at the time that the gift is made.
- Gifts of short-term gain property (such as securities held for less than one year) would be valued for deduction purposes at your tax basis in the property, which often is what you paid for the property at the time that you acquired it. Special rules for determining basis can apply to property acquired by gift or bequest, as well as depreciable property.
- A gift of artwork by its creator, or a gift of any other tangible personal property that is not used by a charity in connection with its exempt purposes, may be valued at the donor's tax basis (as opposed to the fair market value of the art or property).



TYPE OF CONTRIBUTION (VALUATION)	AMOUNT DEDUCTIBLE	ADJUSTED GROSS INCOME (AGI) PERCENTAGE LIMITATION FOR DONATIONS TO MS GIFT
Cash	Full amount	50%
Capital assets (such as marketable securities, closely-held business interests and real estate) held for one year or less.	Lesser of basis or fair market value	50%
Capital assets held for more than one year		
• General Rule	Fair market value	30%
• Election to limit deduction to basis	Donor's basis	50%
Tangible personal property, assuming the charity's use is unrelated to charity's exempt purpose.	Basis	50%

STEP TWO: CALCULATING HOW MUCH MAY BE DEDUCTED PER YEAR

Having determined the value of potential charitable gifts, the second step is to calculate how much may be deducted in a given year. The annual restriction on this amount is based on a percentage of the donor's adjusted gross income or "AGI." AGI is a person's gross income, minus certain deductions that a person may claim whether or not the person itemizes.

- Cash gifts to charities such as MHBG Donor Advised Fund may be deducted up to 50% of AGI.
- Deductions for long-term capital gain property (such as stocks and bonds owned more than one year) are capped at 30% of AGI.
- Deductions for short-term capital gain property (i.e., stock and bonds owned less than a year) are limited to 50% of AGI.

- For corporations, the tax code reduces the limitation to 10% of the corporation's taxable income for all types of property contributed.

The tax benefits for charitable gifts in excess of these limitations are not necessarily lost, but are delayed, as individual and corporate donors may carry forward and deduct excess charitable contributions for up to five succeeding tax years. This is one reason why planning and consulting with a tax advisor is so important.

High-income taxpayers also may see their charitable deduction reduced by the "Pease limitation," which reduces itemized deductions that a taxpayer who has income above a certain threshold may claim. The limitation for 2016 will kick in on AGI levels that exceed \$311,300 for joint filers and \$259,400 for individuals, indexed for inflation. This limitation applies to most itemized deductions, including the charitable deduction.

The table above details the valuation method and percentage limitation for several common forms of charitable contributions by individuals.

FOR MORE INFORMATION about MHBG Donor Advised Fund and its donor advised fund program, please consult the Donor Circular and Disclosure Statement or your Mercy Home for Boys & Girls contact.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

MHBG, in its discretion, may contribute property from time to time to Morgan Stanley Global Impact Funding Trust, Inc. ("Morgan Stanley GIFT") for the purposes of establishing "white label" donor-advised funds in the name of MHBG's own donors. MHBG would be the "Sponsor" of each such fund. Morgan Stanley GIFT is an organization described in Section 501(c) (3), of the Internal Revenue Code of 1986, as amended, and a donor-advised fund. Various divisions of Morgan Stanley Smith Barney, LLC provide investment management and administrative services to Morgan Stanley GIFT.

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