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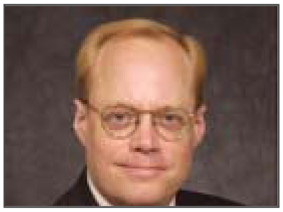

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Burning Man Founders Can Torch Their Tax Bills Too

Burning Man is a week-long art and community festival in Nevada's Black Rock Desert. It hardly seems to be part of mainstream America, and does not hail from the corporate world of financial statements and tax returns. Yet the founders of the now nearly 30 year old experiment are about to get some hefty tax deductions. Burners, as attendees are called, aren't so sure this is in the right spirit.

Still, the amount at stake is significant, like the growing size of Burning Man. Reports say the founders could get up to $1.18 million. It comes about because in 2013, the six founders who are shareholders handed in a majority of their shares. This isn't a takeover or sale but a conversion to nonprofit status. A transaction similar to this is sometimes known as a bargain sale.

Burning Man 2014

The six founders donated most of their shares to Burning Man. It converted to a nonprofit organization in December 2013. Details of the Jan. 1, 2014, deal are now finally coming out. The six are Crimson Rose, Michael Mikel, Marian Goodell, Harley K. Dubois, Larry Harvey and Will Roger. Each accepted $46,000, something that is clearly a bargain basement price.

The IRS agreed it was deeply discounted. And that mean a big piece of the transfer was really a charitable contribution. The shares were worth $1.23 million each, according to one appraiser, while a second appraiser pegged them at $809,000. Either way, that's a lot more than $46,000.

The founders are basing their tax write-offs on appraisals. That is as it should be, even if it does rub some Burners the wrong way. Tax breaks are decided by Congress, and the tax laws are famously quirky. When it comes to charities, there are numerous limitations that must be observed. Warren Buffett gave $2.6 billion to charity in 2013, and the year after he upped his giving to $2.8 billion. Big gifts went to the Bill and Melinda Gates Foundation and other charities.

Was it cash? Of course not! The famously savvy CEO of Berkshire Hathaway did it in stock, giving 21.7 million shares of his company's class B stock. Valued at $128.98 per share, it reduced his holdings to $63.1 billion. $2.1 billion worth of shares (16.59 million of them) went to Bill Gates' charity, the Gates Foundation.

Other donees of Mr. Buffett's Berkshire stock included the Susan Thompson Buffett Foundation ($215 million of stock), the Howard G. Buffett Foundation, the Sherwood Foundation and the NoVo Foundation. The latter three charities got $150 million each. Mr. Buffett handed over stock in his company, Berkshire Hathaway.

Why donate stock rather than cash? When someone donates stock, the donor gets a charitable contribution deduction based on the *fair market value* of what is given. Value and basis are different things, which can mean a big tax advantage.

By donating at the market value of the shares, Mr. Buffett gets credit for the appreciation in the shares, but doesn't have to pay income tax on his gain. That makes donating the appreciated stock far better than selling the stock, paying tax on the gain, and donating the cash. Giving appreciated property is the kind of wise tax planning you would expect from Mr. Buffett.

Mr. Buffett is not alone. Facebook CEO Mark Zuckerberg has done the same thing. Mr. Zuckerberg donated $500 million of his Facebook stock to the Silicon Valley Community Foundation. By donating stock, the donor avoids paying tax on the gain. The donee organization can hold or sell the stock. But since it is a tax-qualified charity, if it sells the stock it pays no tax regardless of how big the gain.

You can only take a deduction for up to 50% of your adjusted gross income for most charitable contributions (30% in some cases). Observe other basic rules too. If your donations entitle you to merchandise, goods or services, you can only deduct the amount *exceeding* the fair market value of the benefits you received. If you pay $500 for a charity dinner ticket but receive a dinner worth $100, you can deduct $400, not the full $500.

The IRS maintains a list of all charities. To check whether particular organizations are on the IRS list, click here.

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