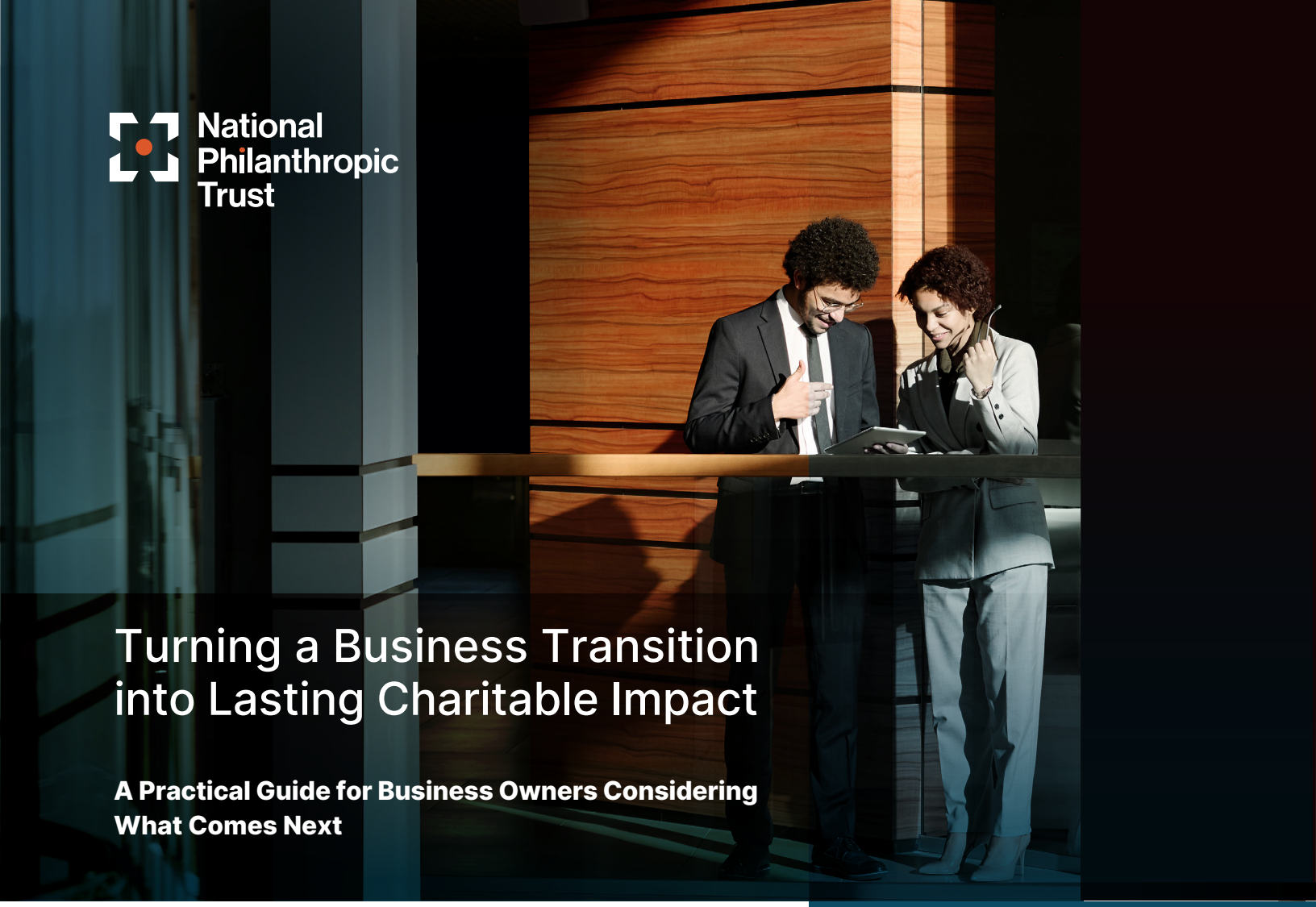
National Philanthropic Trust



Turning a Business Transition into Lasting Charitable Impact

A Practical Guide for Business Owners Considering What Comes Next

For many business owners, a transition is more than a financial milestone. It represents years of risk-taking, resilience, and vision brought to life.

It's also a natural inflection point. A moment to step back and ask a broader question:

"How can I use this success to make a greater impact?"

Whether preparing for a sale, thinking through succession, or anticipating a future liquidity event, this window creates a unique opportunity to align financial outcomes with personal values. Thoughtful charitable planning can play a powerful role in that alignment.

Why These Moments Matter

Business transitions bring several priorities into focus at once:

- Liquidity from a concentrated asset
- Complex tax implications
- Legacy and estate planning decisions
- Family engagement and wealth transfer

Handled strategically, they can be aligned to support both financial outcomes and long-term impact.

Aligning Outcomes with Intent

Charitable planning can help unify the financial and personal dimensions of a business transition, transforming a single event into a coordinated strategy.

CHARITABLE PLANNING CAN HELP

Enhance tax efficiency	Create long-term charitable capital
Diversify concentrated wealth	Engage family members in shared purpose

At the center of this opportunity is a highly appreciated asset — your business — which can play a role in both financial and philanthropic strategies.

Where a Donor-Advised Fund Fits

A donor-advised fund (DAF) is a flexible giving vehicle administered by a public charity. It can accept a range of assets, including certain privately held business interests.

HOW IT WORKS

- A portion of the business is contributed to a DAF before a transaction
- The donor may be eligible for an income tax charitable deduction based on the fair market value of the contributed interest, subject to applicable limitations
- The DAF sponsor participates in the broader sale and sells its interest
- Proceeds flow into the DAF as charitable assets, helping preserve more of the asset's value for charitable giving
- The donor recommends grants to nonprofits over time

This approach allows donors to act decisively at a pivotal moment while maintaining flexibility to direct their philanthropy when the time is right.

Types of Interests That May Be Considered

(Subject to review and due diligence)

- C corporation shares
- S corporation shares
- LLC interests
- Limited partnership interests

Transaction Types Where Planning May Be Beneficial

- Third-party sales
- Private equity recapitalizations
- Partial liquidity events
- Internal transfers or buyouts
- Pre-IPO or pre-public liquidity scenarios
- Sales to an ESOP

> Each structure and transaction type carries its own legal and tax considerations, including transfer restrictions, ownership rules, and timing requirements.

Understanding the Tax Considerations

When structured properly, contributing business interests to a DAF may offer meaningful tax advantages. Outcomes depend on individual circumstances and execution.

Fair Market Value Deduction

Contributions of long-term appreciated assets to a public charity are generally eligible for a deduction at fair market value, subject to IRS rules. By contrast, similar gifts to private foundations are limited to cost basis, which for many founders may be minimal.

DEDUCTION LIMITS

> **Generally up to 30%** of adjusted gross income

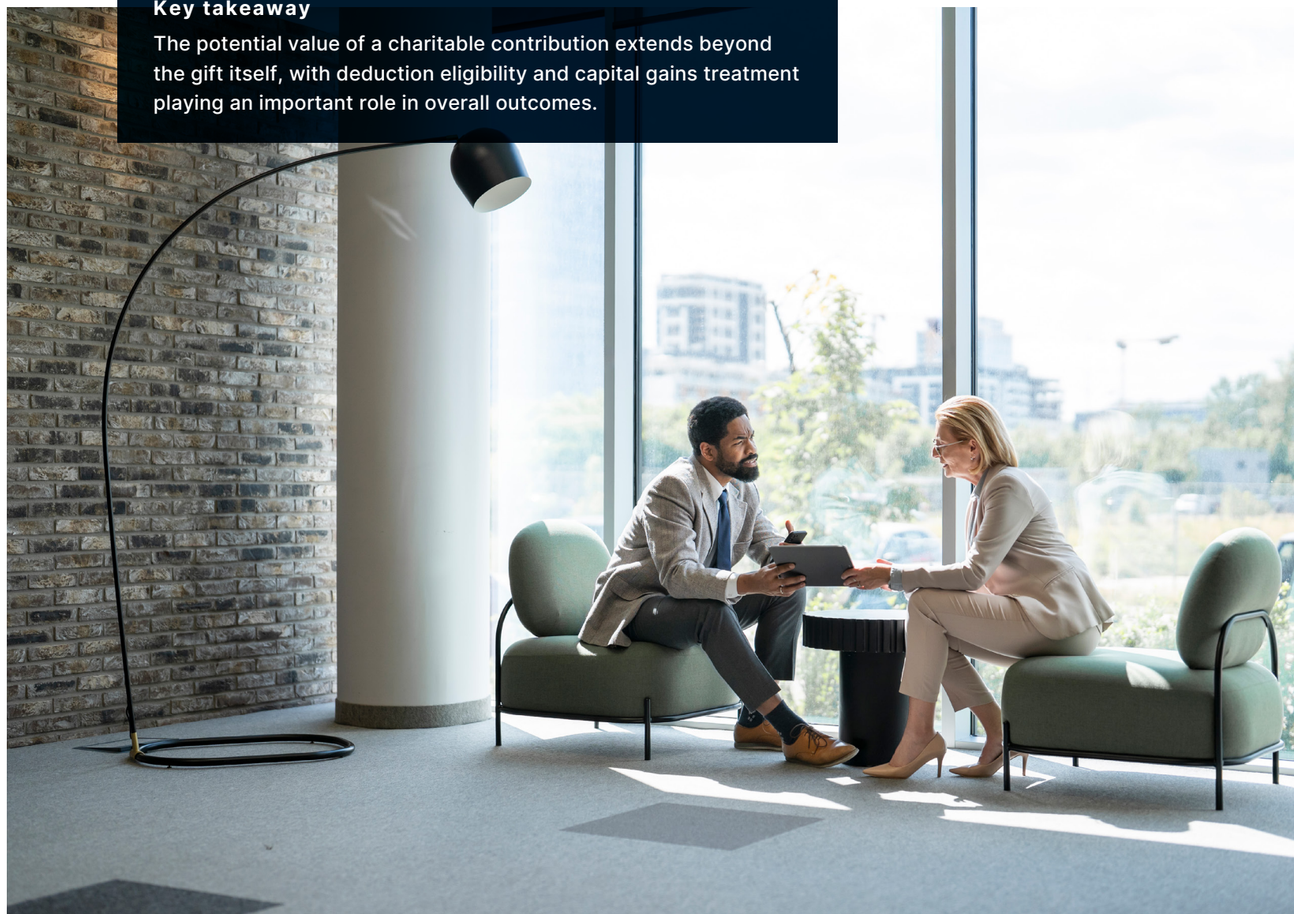
> **Excess deductions** may be carried forward for up to five years

Capital Gains Considerations

If contributed prior to a sale, the donor may avoid recognizing capital gains on the donated portion. In effect, that value may remain fully within the charitable structure rather than being reduced by taxes.

Key takeaway

The potential value of a charitable contribution extends beyond the gift itself, with deduction eligibility and capital gains treatment playing an important role in overall outcomes.



Timing Is a Determining Factor

To achieve the intended tax treatment, the contribution must occur before the donor has a legally binding right to the sale proceeds.

Once a transaction is effectively certain or under contract, the IRS may treat the gain as already realized.

In practical terms: once a deal is signed or effectively certain, many of these planning advantages may no longer be available.

A SIMPLIFIED ILLUSTRATION

Business Value: $10M	**Capital Gains Rate**: 20%
Cost Basis: $0	**Charitable Contribution**: 10% ($1M)

	Before Binding Agreement	After Signed Deal
Capital Gains	No gain recognized on donated portion	~$200K gain recognized
Deduction	Up to $1M (FMV, subject to AGI limits)	Based on net proceeds (~$800K)
Charitable Value	Full $1M retained for giving	Reduced by taxes paid

Key takeaway

Timing can directly affect both the size of the deduction and the amount available for philanthropy.



Introducing National Philanthropic Trust

National Philanthropic Trust (NPT) is the largest independent sponsor of DAFs. For three decades, NPT has worked with high-net-worth individuals, families, and their advisors — particularly in situations involving illiquid assets.

As an independent public charity, NPT is singularly focused on helping donors integrate philanthropy into major financial events with clarity, precision, and purpose.

WHY WORK WITH NPT

- Deep experience with privately held business interests
- Flexible approach to illiquid assets
- Independent charity with open architecture and investment flexibility
- Collaborative model working alongside your advisory team

Flexibility for Private Company Holdings

Many charitable sponsors require immediate liquidation of contributed private company interests.

NPT offers a more flexible approach, which may include:

- **Accepting highly concentrated private company positions**, including holdings that may represent up to 99% of a DAF's assets[1]
- **Participating in an imminent liquidity event** or holding certain private company interests for months or even years before a liquidity event, subject to review

For business owners with strong conviction in their company, this flexibility can help preserve and potentially expand the charitable value of these assets over time.

[1]NPT's ability to hold a concentrated position may be limited by DAF funding level, liquidity needs, excess business holdings considerations, or other factors specific to the investment.

Start the Conversation Early

Charitable planning is most effective when it's proactive.

Engaging legal, tax, financial, and charitable advisors early can help:

- Identify strategies before critical deadlines
- Avoid unintended tax consequences
- Preserve more value for charitable use
- Create a more intentional approach to giving

Turn a Business Transition into Lasting Impact

With the right planning, a business transition can do more than generate liquidity — it can create lasting charitable impact.

National Philanthropic Trust partners with donors and their advisors to evaluate, structure, and implement charitable strategies involving illiquid assets.

Connect with National Philanthropic Trust in collaboration with your advisors to explore what may be possible.

CONTACT US

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