Charitable Strategies for Restricted and Control Shares

**THERE IS CHARITABLE POWER** in the equity that corporate leaders hold. Board directors, executives and other highly-paid employees often receive equity as part of their compensation package. Founders or “control persons”—those who have a position of power and influence within a company—may hold unregistered or otherwise restricted company shares.

Philanthropically-minded executives often overlook restricted and control shares when considering assets to donate, dismissing them as “too complex.” The process can be complicated, and not all charities are equipped to accept such transfers.

National Philanthropic Trust (NPT) offers a simple solution through our donor-advised funds (DAFs). Quick to set up and easy to use, these charitable giving vehicles streamline the contribution process. Executives, founders and other corporate leaders can contribute restricted and control shares directly into a DAF. They will receive an immediate tax benefit and ultimately grant the liquidation proceeds to the charities they recommend.

NPT is uniquely positioned to accept complex assets. On the following pages, we’ll show you how our collaborative approach helps executives unlock the charitable potential of their restricted and control shares.
With NPT’s help, a donor contributing a long-term capital asset like restricted or control shares may be eligible to:

- Avoid capital gains tax
- Receive a fair market value deduction for up to 30% of adjusted gross income*
- Carry forward any excess deduction for five tax years

WHY SHARE RESTRICTIONS MATTER
Equity compensation usually consists of unrestricted shares, which are vested, registered with the Securities and Exchange Commission (SEC) and tradeable on the public market. These shares are usually simple to donate to charity and only need to be transferred to a brokerage account.

However, some shares cannot be contributed as easily.

- Founders and executives who joined a company prior to its initial public offering (IPO) often hold restricted shares that have not been registered with the SEC and are subject to transfer restrictions.
- Donors who are control persons are subject to additional limitations on their ability to trade company shares. Shares held by control persons are referred to as control shares.

With the aid of a DAF, executives can still consider including these shares as part of their charitable strategy.

HOW DONOR-ADVISED FUNDS CAN HELP
For executives holding restricted or control shares, a DAF can be an essential charitable planning tool. NPT’s uniquely flexible DAFs allow executives to contribute their shares directly, so donors do not have to liquidate the shares prior to making a contribution.

NPT collaborates with donors and their financial advisors to complete these charitable contributions. We conduct due diligence, oversee the transfer and liquidate the asset as soon as possible. NPT credits the liquidation proceeds to the donor’s DAF. The donor gets an immediate tax benefit and can use their DAF to recommend grants to their favorite qualified charities at any time in the future.

* Donors should consult with their tax advisors regarding the tax implications of a gift to an NPT DAF, including IRS substantiation requirements.
RESTRICTED STOCK IN ACTION
Here is an example of how NPT manages a contribution of restricted stock.

The problem
Abby is the founder and CEO of a tech company that recently went public. She owns $4 million of restricted shares and is considered a control person. Her shares have appreciated significantly since the IPO. Abby usually donates $200,000 each year to Artemis Academy, a STEM program for girls. However, Abby has had a high-income year due to a few liquidity events. Abby considers donating equity in her company to Artemis Academy, but they are a small organization and cannot accept restricted shares.

The strategy
Abby speaks with her financial advisor and decides that donating $1 million of her restricted shares—with their low cost basis of $25,000—is a tax-efficient way to achieve her philanthropic goals. After learning about the unique flexibility of an NPT DAF, she completes NPT’s Restricted and Control Stock Questionnaire.

ABBY’S STRATEGY:

| Contribute $1 million of restricted stock to her DAF | Realize a fair market value tax deduction now to reduce taxes in a high-income year | Avoid paying capital gains tax on $975,000 |

THE OUTCOME:
Abby’s contribution provides for 5 years of charitable giving, and the assets in her DAF can grow tax-free.

With Abby’s completed questionnaire, NPT confirms with the company’s in-house counsel that she is able to transfer the shares. NPT works with Abby to transfer the shares during the limited open trading window. NPT issues Abby a gift receipt on the date of the transfer. NPT continues to work with the in-house counsel at Abby’s company to secure a legal opinion that allows the restrictive legend on the shares to be removed. Once the shares are unrestricted, NPT liquidates them as soon as possible.

The outcome
Abby now has $1 million in her DAF that can grow tax-free. By contributing these shares to her DAF, she was able to deduct the fair market value of the shares in the current year to offset her income, and to avoid the recognition of $975,000 of capital gain on the sale. Most importantly, the money in her DAF can support Artemis Academy, her favorite cause.
**HOW NPT MAKES IT EASY**

Donating restricted or control stock can seem difficult, but NPT’s process is designed to make it as easy as possible. We manage the complexities so donors can focus on what matters: their philanthropy. After the donor opens a DAF and completes our questionnaire, NPT takes care of the rest:

### Process to Gift Restricted or Control Shares

<table>
<thead>
<tr>
<th>Donor:</th>
<th>NPT:</th>
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<tbody>
<tr>
<td>Completes NPT’s due diligence questionnaire and letter of authorization permitting transfer.</td>
<td>Conducts due diligence and consults with the issuer’s counsel about the donor’s ability to transfer shares.</td>
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<td>Accepts the transferred shares when available.</td>
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<td>Issues a gift acknowledgment letter to the donor.</td>
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<td>Works with issuer’s counsel to obtain a legal opinion allowing restrictive legend to be removed.*</td>
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<td>Liquidates the shares as soon as permissible.</td>
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<td>Selects an investment strategy and recommends grants to qualified charities.</td>
<td>Makes funds available in the donor’s DAF for grantmaking.</td>
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*In the case of restricted shares

**Get Started**

Gifts of restricted or control shares are unique and require special attention. If you and your financial advisor agree that donating these assets is the right strategy for you, NPT can help.

To learn more about how NPT can assist you in gifting restricted or control shares, email our team at npt@nptrust.org, or call us at (888) 878-7900.

We would be honored to be your partner in giving.

* NPT does not provide legal or tax advice. This brochure is for informational purposes only and is not intended to be, and shall not be relied upon as, legal or tax advice. The applicability of information contained herein may vary depending on individual circumstances.