DAF Insights for Advisors

Expertise and tools to help advisors deepen the philanthropic conversation

Helping Clients Convert a Business Interest into Charitable Capital

By Fernando Gonzalez, Director of Development, Mid-Atlantic

If your clients are among the 18.7 million Americans who own their own business, you probably understand what a powerful asset their business is. Chances are you have already discussed how a business sale fits into your clients' retirement planning, but have you considered how it fits into their charitable planning?

Selling a business can be a stressful undertaking, and it can seem easier to support a charity by donating cash out of the proceeds once the sale is over. What's more, many charities can't accept contributions of complex assets like private business interests—which can lead clients to assume that a cash donation is a better and simpler option.

However, by incorporating a charitable plan into your clients' sales strategy and giving prior to the sale, you can help your clients save on taxes and have more to give.

Business owners can use a donor-advised fund (DAF) to make direct, tax-efficient contributions of private business interests before any agreements are in place to sell the company. Donors receive an immediate tax benefit and, after the DAF sponsor liquidates the asset, they can grant the proceeds to qualified charities of their choice over time.

To illustrate this strategy, imagine Cristina is selling her business, which has been appraised at $2.5 million. She wants to contribute the proceeds to charity. Here's how her timing affects the outcome:

OPTION 1: Cristina sells the business first	OPTION 2: Cristina donates to a DAF first
• Cristina sells the business for $2.5 million. • She realizes a capital gains tax of 23.8%*—or $595,000. • By the time she makes her donation, she has $1,905,000 left to give.	• Cristina contributes $2.5 million worth of shares to a DAF. • She avoids the capital gains tax by giving it as a charitable contribution. • The full $2.5 million funds her DAF, where it is invested and can potentially grow before being granted to Cristina's favorite charities.

The second strategy allows Cristina to avoid capital gains tax and donate the full value of the shares. As an added personal benefit, the larger contribution *also* further reduces her taxable income, as she could be eligible for a bigger deduction on her federal tax return: up to $925,000, assuming a 37% marginal income tax rate, compared with $704,850 if the asset was sold first and then contributed after accounting for capital gains taxes.

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And for philanthropically-minded business owners like Cristina, this strategy means that more money is preserved for the charities closest to their hearts.

Using a DAF is a great way to realize the full charitable potential of a private business sale. To learn more about how donor-advised funds work and how NPT's DAFs can help your clients, click here.

**This hypothetical example assumes a 20% capital gains rate with a 3.8% Medicaid surtax and a zero cost basis.*

Fernando Gonzalez is the Regional Director of Development, Mid-Atlantic at National Philanthropic Trust. He has eleven years of wealth management experience, as well as five years' experience in real estate and mortgage consultancy, and a rich history of finance, governance and community engagement.