



National  
Philanthropic  
Trust



# Charitable Strategies for Business Transitions

## *Timing Your Gift for Maximum Impact*

**MORE THAN \$1.99 TRILLION IN ASSETS** changed hands in North America through mergers and acquisitions in 2019 alone.<sup>1</sup> Privately-owned companies constitute a substantial portion of these business transitions, and have generated significant wealth for business owners.

**Selling an interest in your business is an opportunity to make a tremendous philanthropic impact.**

National Philanthropic Trust (NPT) can help business owners unlock the greatest possible value to support their charitable giving strategy.

<sup>1</sup> <https://imaa-institute.org/mergers-and-acquisitions-statistics>

## TIMING IS EVERYTHING

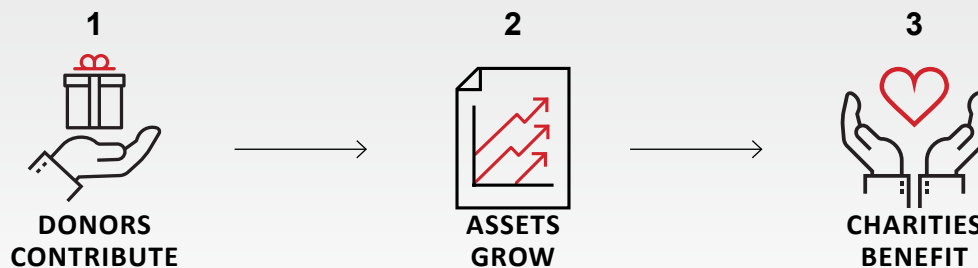
The most tax-efficient strategy when selling a business is to donate a private business interest to charity *before* finalizing the sale. This can reduce your tax liability and create philanthropic capital to support your favorite causes now and in the future. Being mindful of where your donation fits into the timing of the sale is crucial.

Many charities cannot accept complex assets like a private business interest. Using an NPT donor-advised fund can help.

## USING A DONOR-ADVISED FUND

A donor-advised fund (DAF) is a powerful tool to manage your wealth transition and to maximize your charitable impact.

### How does a DAF work?



As a donor, you make an irrevocable contribution of personal assets and receive an immediate tax benefit. The assets are invested and grow tax-free. You then recommend grants at your own pace, whenever you want to support your favorite charities and causes.

## WHAT'S THE BENEFIT?

DAFs are uniquely capable of accepting complex and illiquid assets like an interest in a privately-held business. National Philanthropic Trust can help you maximize your contribution of a private business interest held longer than one year. A direct gift of a private business interest may allow you to deduct up to 30% of your Adjusted Gross Income (AGI) from your taxes.

Your benefits include:

- A fair market value deduction (based on qualified appraisal)**
- Avoiding capital gains tax**
- A way to redistribute your tax savings to the charities you support**

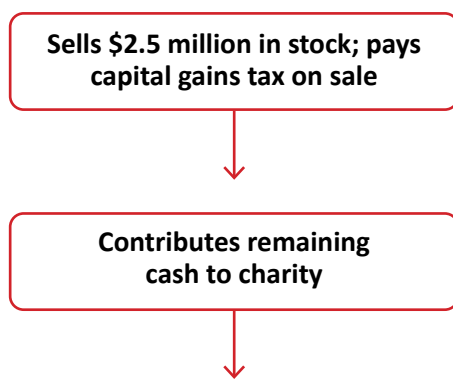
## WHAT'S THE STRATEGY?

Timing is important. The order in which you sell or donate assets can affect your tax liability and your capacity to make a charitable contribution.

If you sell your business without making a charitable contribution first, the sale proceeds are subject to capital gains tax. However, if you donate stock to a charity—including a donor-advised fund—*before* signing a purchase and sale agreement, you may be able to avoid capital gains tax attributable to the donated interest.

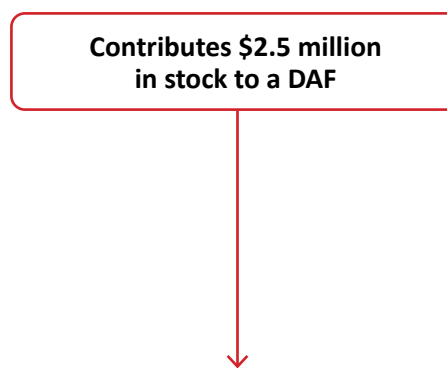
Consider this example: Cristina is selling her business, which has been appraised at \$10 million. From her proceeds, she wishes to donate \$2.5 million to her favorite causes. The timing of her gift will affect the amount she's able to give to charity.<sup>2</sup> By contributing shares in her private business to her DAF before the sale, she realizes the greatest possible tax relief:

### OPTION 1: SALE BEFORE DONATION



FINAL GIFT<sup>3</sup>: **\$1.9 million**  
TAX PAID: **\$595,000**  
TAX AVOIDED: **\$704,850**

### OPTION 2: DONATION BEFORE SALE



FINAL GIFT: **\$2.5 million**  
TAX PAID: **\$0**  
TAX AVOIDED<sup>3</sup>: **\$1.5 million**



**\$595,000 MORE** to give to charity  
**\$815,150 LESS** to pay in taxes

If Cristina makes a charitable contribution *before* finalizing the sale of her business, she will avoid paying capital gains tax on the contribution. An additional **\$595,000** becomes part of her DAF, which may grow tax-free while she decides which charities she wishes to support.

Moreover, Cristina's charitable gift helps reduce her overall taxable income. She will pay \$220,150 less in marginal income tax—in addition to the \$595,000 she's already saving on capital gains. That's **\$815,150** more in tax savings than if she made the gift *after* she sold her business.

**By gifting before she sells, she saves a total of \$1.5 million in taxes, and increases her DAF assets by 31%.**

<sup>2</sup> This hypothetical example assumes a 37% marginal income tax rate and a capital gains rate of 23.8%, inclusive of a 3.8% Medicare surtax. It also assumes that Cristina's business interests have been held for longer than one year, and that she has zero cost basis in the stock. Finally, this sample calculation does not include the discount rate that is applied in the valuation of a closely held corporation, which ranges from 5% to 10%.

<sup>3</sup> For ease of reading, these figures are rounded to one decimal point. The full calculation of the final donation following the sale of a business is \$1,905,000. The tax avoided in the scenario where the donor contributes shares of the business prior to sale is \$1,520,000.

## COMMUNICATION IS KEY

A gift of an interest in a privately-held business is unique and requires special attention. If you decide that donating a private business interest is right for you, NPT can help you and your financial advisors develop a giving strategy.

Our team can work with you throughout the contribution process. We can help you ask the right questions about your financial and philanthropic priorities, comply with IRS tax law, and realize the full potential of your gift.

Most importantly, we can work with you to:

- ✔ Incorporate a charitable component into your chosen business transition strategy—whether it's a corporate redemption, third-party sale or shareholder buy-out

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- ✔ Assess any potential financial or legal challenges associated with donating or liquidating the asset

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- ✔ Develop a plan to maximize charitable impact

To learn more about how NPT can assist you with donations of private business interest, contact us at [ubsdaf@npitrust.org](mailto:ubsdaf@npitrust.org) or (877) 277-3191.

We would be honored to be your partner in giving.

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*Determining a giving strategy is largely dependent on individual factors, such as income bracket and tax deductions, as well as personal goals. NPT does not provide legal or tax advice. You should consult with your financial and/or tax advisor before making charitable contributions.*