



National  
Philanthropic  
Trust

## Charitable Strategies for Restricted and Control Stock

**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 stock.

Philanthropically-minded executives often overlook restricted and control stock 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 stock 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 stock.

With NPT's help, a donor contributing a long-term capital asset like restricted or control stock 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 STOCK RESTRICTIONS MATTER

Equity compensation usually consists of **unrestricted** stock, which is vested, registered with the Securities and Exchange Commission (SEC) and tradeable on the public market. This kind of stock is usually simple to donate to charity and only need to be transferred to a brokerage account.

However, some stock cannot be contributed as easily.

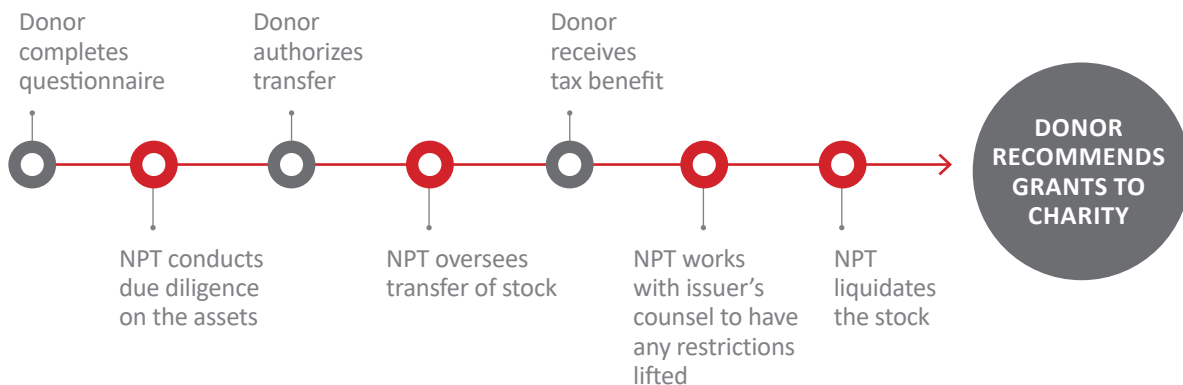
- Founders and executives who joined a company prior to its initial public offering (IPO) often hold **restricted** stock that has not been registered with the SEC and is subject to transfer restrictions.
- Donors who are control persons are subject to additional limitations on their ability to trade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

With the aid of a DAF, executives can still consider including this kind of stock as part of their charitable strategy.

## HOW DONOR-ADVISED FUNDS CAN HELP

For executives holding restricted or control stock, a DAF can be an essential charitable planning tool. NPT's uniquely flexible DAFs allow executives to contribute their stock directly, so donors do not have to liquidate the stock 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.

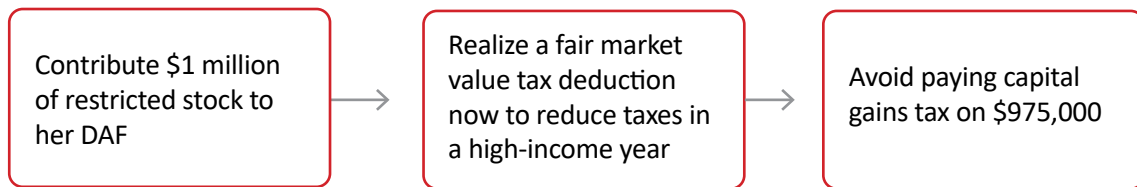
### *The problem*

Abby is the founder and CEO of a tech company that recently went public. She owns \$4 million in restricted stock and is considered a control person. Her stock has 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 stock.

### *The strategy*

Abby speaks with her financial advisor and decides that donating \$1 million of her restricted stock—with its 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:



### 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 stock. NPT works with Abby to transfer the stock 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 stock to be removed. Once the stock is unrestricted, NPT liquidates it as soon as possible.

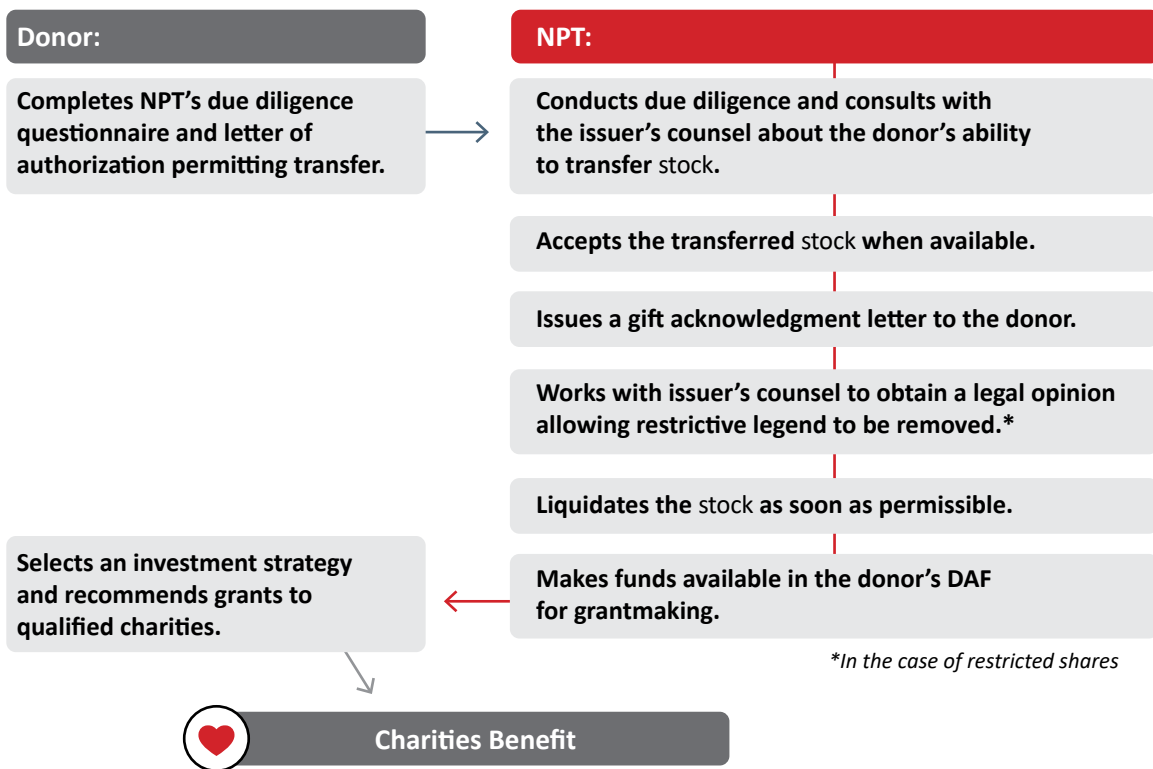
### *The outcome*

Abby now has \$1 million in her DAF that can grow tax-free. By contributing to her DAF, she was able to deduct the fair market value of the stock 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 Stock



## Get Started

Gifts of restricted or control stock 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 with donations of private business interest, contact us at [ubsdaf@nptrust.org](mailto:ubsdaf@nptrust.org) or (877) 277-3191.

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.*