

Charitable Contributions: Cash or Shares?

Maximize your generosity from the sale of your business by properly structuring your contributions

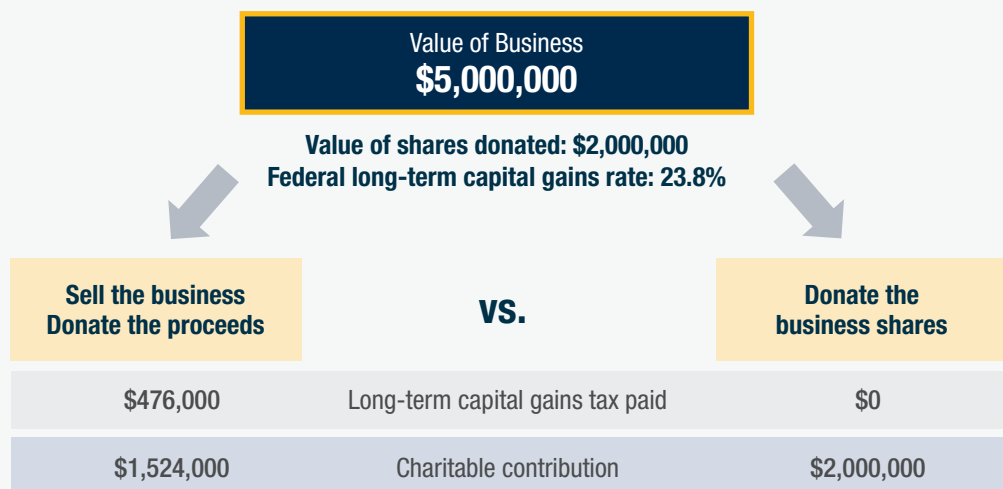
Over the years, hard work and sound decisions built your successful business. Now, as life's priorities change, you may want to use your well-earned prosperity to make a lasting, positive difference in your community.

Many accomplished business owners support local non-profits and charities by gifting proceeds from the sale of their business interests. If you consider funding a contribution in this manner, it's imperative that your gift is properly structured to minimize taxes and maximize benefits.

Choose wisely. The difference is significant.

If your gift isn't structured properly, you can pay significantly more in taxes – leaving the recipient with a smaller donation than you intended. Here's an example illustrating the difference between outright giving compared to a planned strategy:

Mary wants to sell her business – valued at \$5 million – and donate \$2 million of the proceeds to a local non-profit food bank. She currently has a long-term capital gains rate of 23.8% (including the Medicare surtax of 3.8%).



Option 1: Make an Outright Cash Gift

If Mary's sells \$2 million of shares and donates the proceeds to charity, she will pay \$476,000 in capital gains taxes – reducing her net contribution to the food bank to \$1,524,000.

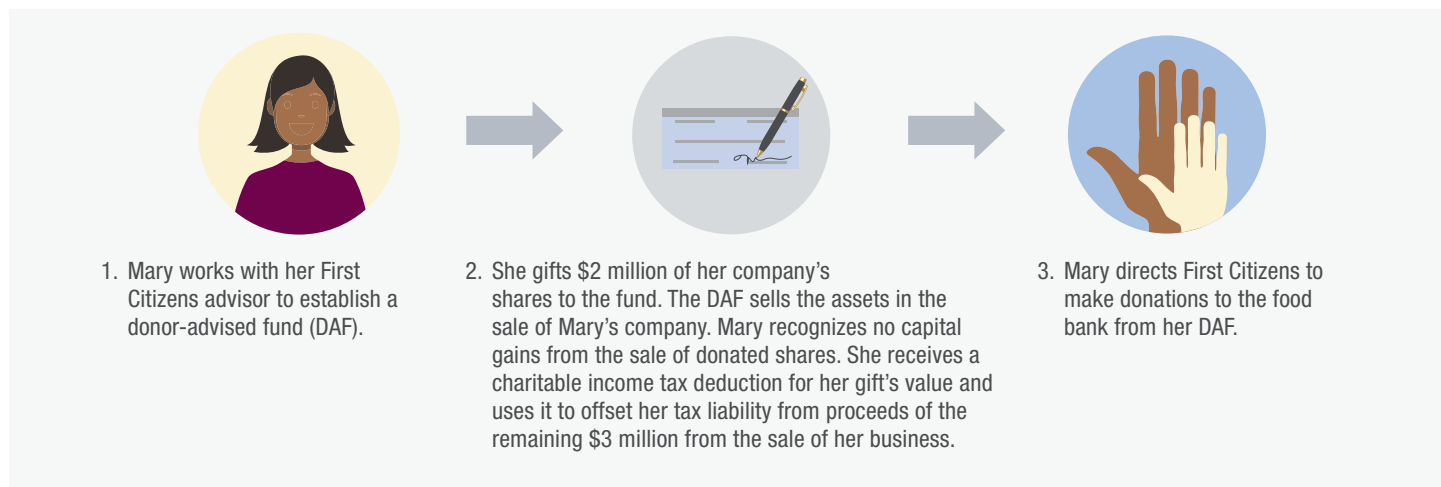
Option 2: Implement a Structured Plan

If Mary donates business shares worth \$2 million directly to the food bank, she recognizes no capital gains – and makes a full \$2 million donation. When the food bank sells their shares, Mary will recognize no gain on the shares given to the food bank. That's \$476,000 more than an after-tax cash contribution. Mary will also receive a larger tax deduction on the \$2 million donation of shares versus the \$1,524,000 net proceeds from the sale of shares (Option 1).

How is this accomplished? To structure her donation as shown in Option 2, Mary could create a donor-advised fund or a charitable remainder trust. Here's how each of these structured plans works:

Donor-Advised Fund

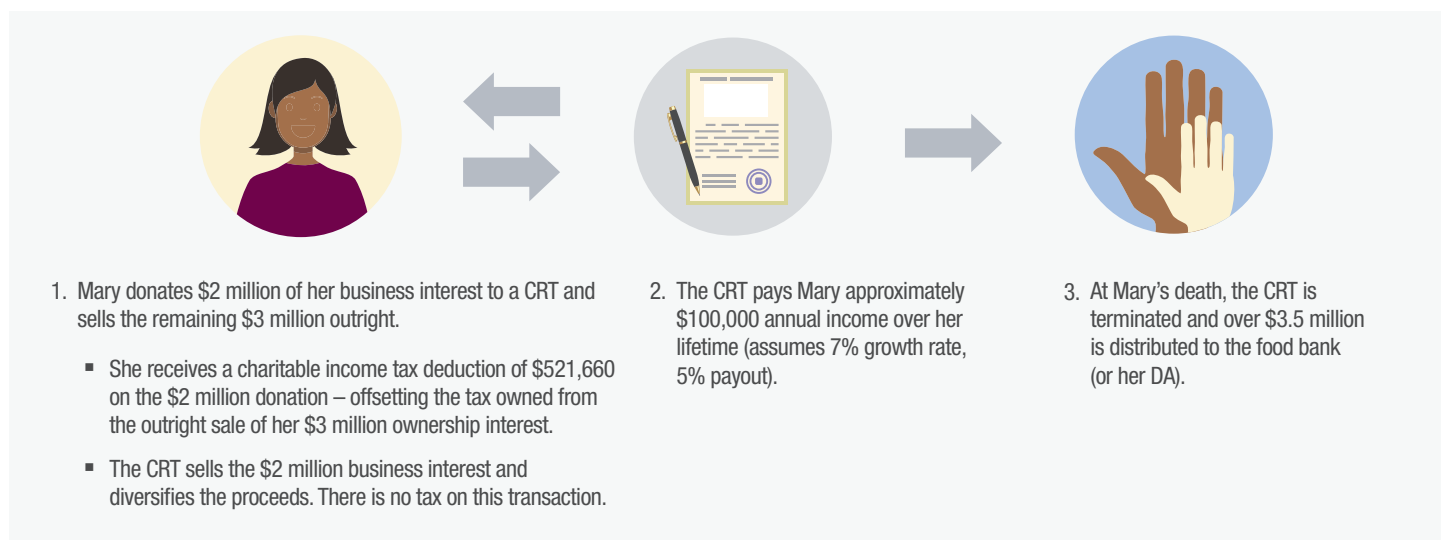
This charitable-giving vehicle allows individuals, families or businesses to make an irrevocable, tax-deductible contribution of personal assets to a charity. The fund manages the assets and at any time thereafter the donor can recommend grant distributions to qualified charitable organizations.



Charitable Remainder Trust

A charitable remainder trust (CRT) helps if Mary needs to replace a stream of income with the sale proceeds while still supporting the food bank charity.

A CRT is an irrevocable trust enabling a business owner to gift shares to charities while continuing to receive income from the asset(s) during life or a period of up to 20 years. The business owner and/or other income beneficiaries receive trust income annually and the charities receive the remaining assets when the trust terminates.



Donor-Advised Fund or Charitable Remainder Trust – Which is Right for You?

Here's another sound business decision to make. Factors you should consider when evaluating the best charitable-giving structure for you are your:

- Need to receive income tax deductions to offset high income
- Flexibility during a liquidation event (inheritance or sale of business or real estate)
- Desire to reduce or eliminate capital gains, gift and estate taxes
- Enthusiasm to utilize a long-term donation strategy (DAF)
- Need for lifetime or period of time income stream (CRT)

It makes sense for a business owner to utilize a DAF or CRT too under these circumstances:

- Arranging a significant gift to charity
- Using income tax deductions to offset high income
- Experiencing a liquidation event (inheritance or sale of business or real estate)
- Reducing or eliminating capital gains, gift and estate taxes
- Wanting to utilize a long-term donation strategy (DAF)
- Needing income for life or a period-certain (CRT)

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¹ A business owner must file IRS Form 1040 and itemize deductions on Schedule A to claim the charitable deduction. In practical terms, a minimum of 20% of adjusted gross income (AGI) can be deducted while the maximum allowable deduction is currently 60% of AGI. The deduction percentage is dependent on the type of asset given and the type of tax-exempt organization. Charitable deductions can be carried over from any year in which donation deduction limits are surpassed, up to a maximum of 5 years.

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