

Giving a Business to Charity: Stack the Odds in Your Client's Favor



High profile giving by donors associated with well-known businesses has maintained its place in the limelight, even amid recent market volatility and tenacious concerns about inflation and interest rates. Recent examples abound, including last year's [gift of Patagonia by founder Yvon Chouinard](#); the well-reported generosity of philanthropists [Melinda French Gates and MacKenzie Scott](#); and the portion of the \$5 billion in proceeds from the eventual sale of [Subway restaurants](#) that are set to flow to a charitable foundation.

As an advisor to business owners, collaborating with the Chester County Community Foundation, you can help your clients leverage potential future liquidity events to support the community causes they care most about.

Advance [planning](#) is critical. The Community Foundation team can get involved as a philanthropic advisor in your preliminary discussions with a client about giving part (or all) of a closely-held business to charitable causes. These transactions carry with them layers of complexity, largely around the timing of the charitable gifts in relation to the sale transaction. The best outcomes are achieved through a thoughtful, multi-step process.

Many successful closely-held exit transactions occur only after several [years of planning](#)—and most of that planning occurs well before potential buyers are even engaged. This planning period is an important time for your client to consider giving ownership shares of the company to a donor-advised fund at the Community Foundation, especially knowing that under certain circumstances, the proceeds of the shares held by the donor-advised fund will be immune from capital gains taxes if the business eventually does sell, leaving more money to support the client's favorite causes.

You might even consider encouraging your client to give shares to a donor-advised fund not all at once, but in increments over time during the business exit planning period (before a buyer is identified). This can help avoid the appearance that the gift is merely a function of the business sale and as such intended to be a tax dodge. If the IRS determines that the stock gifts to charity and the sale of the company are really one and the same event—a "[step transaction](#)"--the tax benefits of the charitable deduction could be disallowed.

Another essential part of the process is to secure [a proper valuation](#) of the stock by an independent and qualified appraiser for charitable deduction purposes when the ownership is gifted to the donor-advised fund at the Community Foundation.

Please reach out to the team at the Chester County Community Foundation to discuss how we can help your business owner clients who intend to maximize their future ability to support the charities they love.

For more information, contact the Chester County Community Foundation:

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The team at the Chester County Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.