

Rare but Powerful “Charitable Exits”: Know It When You See It

If your client base includes business owners, you’re no doubt at least generally aware of the benefits of giving closely-held business interests to charity. Beyond that, though, the details may get fuzzy. That is totally understandable! Most advisors encounter only a few of these opportunities over an entire career. The key is to be able to recognize the opportunity so you can reach out to the Chester County Community Foundation team to help you make the most of it for your client.



Let’s take a look at how this plays out for a hypothetical client, Alex Monroe, who may have a few things in common with your actual business owner clients.

- When Alex began considering selling his company, he mentioned it only casually to you. But you knew enough to listen carefully because you know Alex has given generous gifts to several favorite charities over the years. You re-familiarized yourself with the Community Foundation in anticipation of the ongoing conversation with Alex.
- You also know that the value of Alex’s company has grown substantially over the years, accumulating significant unrealized capital gains for Alex. If Alex sold now without additional planning, a large portion of the proceeds would go toward capital gains tax, potentially eroding the value he had worked so hard to build.
- Some business owners in Alex’s position would rush into the exit process with their advisors by putting feelers out to potential buyers, determining an asking price, jumping to establish a letter of intent with a leading suitor, and in the process, missing strategies that could improve their post-sale outcome.
- In Alex’s case, though, you suggest involving the Chester County Community Foundation early in the process. You shared with Alex that it’s worth considering giving a portion of the company’s shares to a donor-advised fund at the community foundation before any formal sale activities begin.
- You explain to Alex that by making this charitable gift well in advance of the eventual sale, the shares owned by the donor-advised fund will not trigger capital gains for Alex. Instead, the donor-advised fund will receive the proceeds free of capital gains tax and ready to deploy toward Alex’s philanthropic goals. What’s more, this technique delivers an estate tax advantage by removing the gifted portion of the business from Alex’s taxable estate.

Whether you encounter a situation like Alex’s once, twice, or dozens of times during your career, the most important tip to remember is to reach out to the Chester County Community Foundation team during the very early stages of planning a client’s business exit. Transactions like this take time and also require navigating a few pitfalls. For example:

- Obtaining a qualified appraisal is crucial in order to comply with IRS [rules](#) for charitable deductions for gifts of non-cash assets. Failure to strictly comply with IRS rules could wipe out the tax deduction.
- For this type of transaction to avoid capital gains tax, it is important that no formal discussions about the sale, no shareholder vote approving a transaction, and no signed letter of intent are in place before the gift of shares. Otherwise, the IRS may [disallow](#) the charitable deduction.
- These transactions are typically much more effective when the stock is given to a [public charity](#), such as the Community Foundation, rather than a private foundation. Unfortunately, some tax advisors are not aware of the significant differences in the tax benefits of giving closely-held business shares depending on the IRS status of the receiving entity. And of course, the Community Foundation reviews each potential gift carefully to ensure compliance and feasibility.

One of these days, whether it’s next week or six years from now, you’ll likely encounter a charitably-minded business owner who decides it is time to explore selling the business. In that situation—and in any other situation involving charitable giving—the Chester County Community Foundation is honored to be your first call.

For more information, contact the Chester County Community Foundation:
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