

THE
CATHOLIC
FOUNDATION

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PRE-LIQUIDATION GIFT

There will likely come a time when you will want to sell your business. Before you sign a binding agreement, consider a charitable gift to reduce or completely avoid the capital gains on the sale.

GIFT AND SALE—TURNING TAX DOLLARS INTO CHARITABLE DOLLARS

If you give enough of an interest of the business to a charity or donor advised fund prior to a binding sales agreement, you can use the resulting charitable income tax deduction to off set part or all of the capital gains on the interest you retain.

CAPITAL GAINS TAX REDUCTION

John received an offer to sell his closely-held C Corporation. The business has an appraised value of \$5,000,000 and a cost basis of \$500,000. Selling the business outright would result in a \$1.3 million capital gain tax. If he were to first donate \$1 million worth of shares to charity or a donor advised fund, he would avoid the capital gains tax on that stock. John decided to make the gift. In doing so, he turned tax dollars into charitable dollars and greatly reduced the capital gains tax.



As a business owner you have the opportunity not only to build your business (and wealth) for yourself and your family, but also to invest in the charities close to your heart.

Gift Strategies Through Your Business

GIFT OF CORPORATE STOCK

You can give a small percentage of voting or non-voting shares in your business to a charity or a donor advised fund (DAF). Doing so qualifies you for a charitable deduction equal to the appraised fair market value of the shares. The charity or DAF will hold your shares for a future sale or redemption. In the meantime, it will receive its prorated share of any dividends paid to shareholders, which can be used for a charitable purpose.

If the corporation is an S Corporation, there are potential tax liability issues for the charity which must carefully be evaluated before accepting such gifts.



This information is not intended as tax, legal or financial advice. Gift results may vary. Consult your personal financial advisor for information specific to your situation.

The names and images shown here are representative of typical donors and may or may not be actual donors to this organization. Under federal rules your benefits may be different from this example. Please contact us for your specific benefits.

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GIFT OF CORPORATE ASSET

You can also give assets from your business. If the gift is a non-inventory asset, the deduction will be its appraised fair market value. For example, let's say your business purchased a parcel of land for future expansion, but you no longer intend to expand. The land cost \$20,000 and now has a value of \$100,000. Your business could give the land to charity and, as a result, receive an income tax deduction of \$100,000 and avoid the tax on the \$80,000 capital gain. The income tax deduction is limited to 10% of the corporation's taxable income. Any unused deduction can be carried forward up to five years.

If the business is an S Corporation, the deduction will flow-through to the shareholders in proportion to their ownership interests and is limited to their outside basis.

