

S-CORP CONTRIBUTION



THE SITUATION

- Individual is looking to sell an S-Corp that was founded years earlier.
- One or more private equity firms have expressed interest in buying the S-Corp; however, the deal is not complete and terms are still being negotiated.
- Individual is philanthropic and faces a large capital gains tax; thus, Individual's Advisor or Charitable Planning Specialist suggests contributing an interest in the S-Corp to charity before selling the corporation.

THE CONSIDERATIONS

- Individual must determine whether the contribution prior to the sale would result in an anticipatory assignment of income. If the IRS determines that the sale was prearranged, the Individual may lose the ability to take a tax deduction and be required to pay tax on the gain from the sale.
- As a shareholder, the charity will generally be subject to unrelated business income tax ("UBIT") on any income it derives during its period of ownership and on its gain from the sale. The charity may pay these taxes with the proceeds of the sale.
- The IRS has a three-year "look back," during which it can challenge the cost basis of an S-Corp and, therefore, the tax paid by the charity. As a result, the charity may escrow a portion of the proceeds in a separate account for three years and Individual will not be able to recommend grants from these funds until it is released.
- If the sale is not completed, the charity, not Individual, controls the contributed shares.

THE SOLUTION

- Individual chooses to establish a Giving Account® at Fidelity CharitableSM, an independent public charity.
- Fidelity CharitableSM conducts due diligence on the proposed contribution and our exit strategy and decides to accept the S-Corp shares.
- Individual's deduction is the appraised fair market value ("FMV") of the property on the date of the contribution.¹
- The proceeds received by Fidelity Charitable as a result of the sale may be higher or lower than the appraised value and/or the tax-deductible value of the contributed shares.
- Individual's Giving Account® is funded with the gross proceeds of the sale, less the UBIT and other costs incurred by Fidelity Charitable in accepting and liquidating the contributed shares.
- A percentage of the gross proceeds is escrowed in a separate Giving Account. Individual can't recommend grants from this escrow account for the duration of the applicable statute of limitations period (generally about three years).

¹Fair market value of the property, as determined by an independent qualified appraiser, must be obtained and must be reported to the IRS by the donor on IRS Form 8283. The appraisal must be made not earlier than 60 days before the date of the contribution. The donor must receive the appraisal before the due date of the return on which he or she first claims a deduction for the property.

THE BENEFITS

- Individual establishes a Giving Account from which to support charities during lifetime and beyond.
- Individual potentially eliminates capital gains tax on the contributed shares/interest.
- Individual is eligible to take a tax deduction, based on a qualified appraisal¹ and adjusted according to IRS regulations, of the shares, up to 30% of his or her adjusted gross income (“AGI”). If the tax-deductible value of the contribution is greater than 30% of AGI, Individual can “carry forward” the deduction for five years.
- Charitable Planning Specialist or Advisor provides an innovative way for Individual to meet his or her philanthropic goals and minimize his or her tax burden.
- Charities supported by the donor potentially receive larger grants since Individual saves on taxes, and the proceeds have the potential to grow over time in Fidelity Charitable investment programs.

**For more information, please call a Charitable Planning Specialist at 800.682.4438
or visit [FidelityCharitable.org](https://www.FidelityCharitable.org).**

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