FIDELITY Charitable®
Make more of a difference

Case Study: Donating S-Corp Stock

Giving back after making it big

John was looking to sell an S-corp that was founded years earlier. One or more private equity firms had expressed interest in buying the S-corp; however, the deal was not complete and terms were still being negotiated. Because John was thinking of making a donation to support a new domestic violence shelter and also would face a large capital gains tax on the sale of the S-corp, his advisor suggested contributing some of his interest in the S-corp to charity before selling the corporation.

Maximize your charitable giving

John chose to establish a Giving Account® at Fidelity Charitable®, an independent public charity. Fidelity Charitable® conducted due diligence on the proposed contribution and our exit strategy and decided to accept the S-corp shares. John's deduction was at the appraised fair market value (FMV) of the property on the date of the contribution.[1]

John's Giving Account® was funded with the proceeds of the sale, less the unrelated business income tax (UBIT) and other costs incurred by Fidelity Charitable in accepting and liquidating the contributed shares.

TIPS

Considerations for donating S-corp shares:

1. 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, you may lose the ability to take a tax deduction and be required to pay capital gains tax.

2. As a shareholder, the charity will generally be subject to 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.

3. 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 the individual will not be able to recommend grants from these funds until they are released.

   If the sale is not completed, the charity, not the individual, controls the contributed shares.

Unmatched benefits

By using a Giving Account, John's capital gains taxes were eliminated on the contributed shares. He was eligible to take a tax deduction, based on a qualified appraisal and according to IRS regulations, of up to 30% of his adjusted gross income (AGI).

Note: If the tax-deductible value of the contribution was greater than 30% of his AGI, he may have been able to "carry forward" the remaining deduction for up to five years.

John was able to recommend larger grants from his Giving Account to the domestic violence shelter because he made a direct donation of S-corp shares to Fidelity Charitable. And John's Giving Account has the potential to grow even more over time in Fidelity Charitable investment programs, thereby allowing him to provide future support.

Potential benefits of giving an interest in a company directly to Fidelity Charitable:

- Provide more money to charities
- Potentially eliminate capital gains tax exposure
- Eligible for a tax deduction

John owns S-corp shares with a zero cost basis values at: **$20,000,000**[2]
Federal long-term capital gains rate: **23.8%**[3]
Effective UBIT: **10%**[4]

John donates a portion of his shares valued at:

$2,000,000[5]

	John sells his shares and donates the proceeds:	Before the company is sold, John donates a portion of his shares directly to Fidelity Charitable and Fidelity Charitable sells the shares:
Long-term capital gains tax paid:	**$476,000**	**$0**
		Effective UBIT Paid: **$200,000**
		Valuation discount: **8%** (due to minority interest and lack of control)[6]
Charitable contribution/charitable deduction:	**$1,524,000**	**$1,840,000**[7]
Amount available for granting:	**$1,524,000**	**$1,800,000**[8]

Additional amount dedicated to charity: $276,000

Visit our website to open a Giving Account

Give us a call to learn more: 800-262-6039

This hypothetical case study is provided for illustrative purposes only. It does not represent an actual donor, but is meant to provide an example of how a donor-advised fund can help individuals give significantly more for the causes they care about.

[1] Fair 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 no 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.

[2] Total Cost Basis of Shares is generally the amount of money you have invested in the shares of a particular fund or individual security. It represents the basic dollar amount that, when compared to the price at which you sell your shares, tells you how much of a capital gain or loss you have realized.

[3] This assumes all realized gains are subject to the maximum federal long-term capital gains tax rate of 20% and the Medicare surtax of 3.8%. This does not take into account state or local taxes, if any.

[4] The effective unrelated business income tax (UBIT) rate for Fidelity Charitable in this instance is 10%.

[5] Fair market value of the stock as determined by a qualified appraisal, held for more than one year.

[6] The discount rate is an estimate reflective of applied discount rates generally seen in the valuations of privately held companies. This assumes a rough range of 5%–10% discount for a minority interest and lack of control. Please note that applied discounts could be higher or lower depending on the nature of the interest and the company itself.

[7] Please note this number refers to the amount of charitable deductions available based on the 8% valuation discount.

[8] This assumes there is a stock sale and no ordinary income attributed to the sale with a zero cost basis. This is the amount available for granting purposes after payment of CGF's unrelated business income tax.

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