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.

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

¹
John owns S-corp shares with a zero cost basis values at: $20,000,000
Federal long-term capital gains rate: 23.8%
Effective UBIT: 10%

John donates a portion of his shares valued at: $2,000,000

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Long-term capital gains tax paid:</td>
<td>$476,000</td>
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<tr>
<td>Charitable contribution/charitable deduction:</td>
<td>$1,524,000</td>
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<td>Amount available for granting:</td>
<td>$1,524,000</td>
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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

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