S-CORP CONTRIBUTION

FIDELITY Charitable®
Make more of a difference

THE SITUATION

- An 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.
- The individual is philanthropic and faces a large capital gains tax; thus, the individual's Advisor or Charitable Planning Specialist suggests contributing an interest in the S-Corp to charity before selling the corporation.

THE CONSIDERATIONS

- The 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 the individual will not be able to recommend grants from these funds until it is released.
- If the sale is not completed, the charity, not the individual, controls the contributed shares.

THE SOLUTION

- The individual chooses to establish a Giving Account® at Fidelity Charitable®, an independent public charity.
- Fidelity Charitable® conducts due diligence on the proposed contribution and our exit strategy, and decides to accept the S-Corp shares.
- The 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.
- The 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. The individual cannot recommend grants from this escrow account for the duration of the applicable statute of limitations period (generally about three years).

THE BENEFITS

- The individual establishes a Giving Account from which to support charities during his or her lifetime and beyond.
- The individual potentially eliminates capital gains tax on the contributed shares/interest.
- The individual is eligible to take a tax deduction, based on a qualified appraisal[1] 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, the individual can "carry forward" the deduction for five years.
- A Charitable Planning Specialist or the individual's Advisor provides an innovative way for the individual to meet his or her philanthropic goals and minimize his or her tax burden.
- Charities supported by the donor potentially receive larger grants because the 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.

[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.

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