



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 Planned Giving Associate suggests donating an interest in the S-Corp to charity before selling the corporation.

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 pre-arranged, 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 (usually 20%) in a separate Giving 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 controls the contributed shares, not Individual.

THE SOLUTION

- Individual chooses to establish a Fidelity® Charitable Gift Fund™ Giving Account.
- The Gift Fund conducts due diligence on the proposed contribution and the Gift Fund's 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 the Gift Fund 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 the Gift Fund 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 3 years).

THE BENEFITS

- Individual establishes a Giving Account from which to support charities during lifetime and beyond.
- Individual potentially avoids 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 their Adjusted Gross Income ("AGI"). If the tax-deductible value of the donation is greater than 30% of AGI, Individual can "carry forward" the deduction for 5 years.
- Planned Giving Associate or Advisor provides an innovative way for Individual to meet his philanthropic goals and minimize his 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 the Gift Fund's investment programs.

For more information,
please call a Planned Giving Associate at 800.682.4438
or visit www.charitablegift.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 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/she first claims a deduction for the property.

For more complete information about contributing Special Assets, refer to the Gift Fund's Special Asset Contributions brochure.

Information provided is general and educational in nature. It is not intended to be, and should not be construed as, legal or tax advice. The Gift Fund does not provide legal or tax advice. Content provided relates to taxation at the federal level only. Availability of certain federal income tax deductions may depend on whether you itemize deductions. Rules and regulations regarding tax deductions for charitable giving vary at the state level, and laws of a specific state or laws relevant to a particular situation may affect the applicability, accuracy, or completeness of the information provided. Charitable contributions of capital gain property held for more than one year are usually deductible at fair market value. Deductions for capital gain property held for one year or less are usually limited to cost basis. Consult an attorney or tax advisor regarding your specific legal or tax situation.

The *Fidelity*® Charitable Gift FundSM ("Gift Fund") is an independent public charity with a donor-advised fund program. Various Fidelity companies provide non-discretionary investment management and administrative services to the Gift Fund. Charitable Gift Fund and the Charitable Gift Fund logo are service marks, and Giving Account is a registered service mark, of the Trustees of the *Fidelity Investments*® Charitable Gift Fund. Fidelity and Fidelity Investments are registered service marks of FMR Corp., used by the Gift Fund under license.