

# Giftting privately held business interests

## ASU Foundation for a New American University Estate and Gift Planning

### Did you know?

You may be able to leverage privately held business interests as a philanthropic gift to support Arizona State University's future.

### You can donate privately held business interests if you would like to:

- Retain earnings from a business without subjecting them to tax again.
- Maintain a controlling position in the business.
- Avoid capital gains tax on the interests you donate to ASU.
- Receive a federal income tax deduction for the full appraised value of the interest.
- Support ASU's mission.

Your interest in a private business — such as a C- or S-corporation, limited partnership (LP) or limited liability company (LLC) — likely has a low-cost basis and those interests may have appreciated substantially. These factors may lead to increased capital gains taxes if you sell those interests. During a business's life, there are times when it makes sense to set aside an ownership interest for charitable contributions, including when a company is being formed; before an initial public offering (IPO); before the sale, merger or acquisition of a company; or before an owner or partner in a company leaves.

Interests in privately held businesses are most often leveraged as an outright gift. You can make a gift of privately held business interests if the constituting documentation for the business permits additional owners. You also may claim a charitable deduction for this donation once you obtain an appraisal for the business entity interest.

Consult your legal and tax advisors to see how making a gift to ASU can maximize this tax-efficient strategy. Because of the risks involved in owning privately held business interests, every proposed gift will be carefully evaluated before being accepted.

### Donating business interests can unlock additional funds for ASU in two ways:

**Potentially eliminate the capital gains tax incurred** if you sold the interest yourself and donated the proceeds, which may increase the charitable amount by up to 20%.

**Allow you to claim a fair market value charitable deduction** for the tax year in which the gift is made, and pass on those tax savings as additional giving to ASU.



Maximum impact + minimal taxes

# Example:

## Maximizing charitable impact while mitigating tax exposure\*

**Alex, an executive at XYZ, wants to leverage privately held stock to fund their ASU philanthropic goals.**

Alex works with their attorney and tax advisor, as well as the ASU Estate and Gift Planning team and ASU Foundation leaders, to discuss their options.

### Option 1:

If Alex sells \$1 million of shares (fractional interest) back to XYZ, pays the estimated \$190,000 in federal capital gains taxes and donates the after-tax proceeds, their tax savings would be \$109,700 while their charitable contribution would be \$810,000.

### Option 2:

If Alex transfers \$1 million in shares (fractional interest) directly to the ASU Foundation, they could eliminate \$190,000 in projected federal capital gains taxes, for a total charitable contribution of \$1 million. When combined with their potential income tax deduction, Alex's total tax savings would be \$370,000.

**Conclusion:** Alex decides to transfer these shares to the ASU Foundation instead of selling them back to XYZ. Though both options involve the same \$1 million in shares, **Option 2 enables Alex to make a larger charitable contribution to ASU, while also earning a larger income tax deduction and mitigating federal capital gains tax exposure.**

\*This example is only for illustrative purposes. It does not take into account any state or local taxes or the Medicare net investment income surtax. The tax savings shown is the tax deduction, multiplied by the donor's income tax rate (37% in this example), minus the long-term capital gains taxes paid.

**Cost basis = \$50,000 • Federal long-term capital gains tax = 20% • FMV of shares = \$1 million**

### Option 1

- \$190,000 capital gains tax.
- \$810,000 charitable contribution + tax deduction.
- \$109,700 total tax savings.

### Option 2

- \$0 capital gains tax.
- \$1 million charitable contribution + tax deduction.
- \$370,000 total tax savings.

**Maximum impact + minimal taxes**