



American Endowment Foundation

Unlocking the Wealth of C-Corp Shares

Although C-corporations today have become a smaller share overall of American business classifications, there are approximately 1.7 million businesses currently that are classified as “C-corps.” For those business owners of C-corps who are nearing retirement and are desiring a business exit, their C-corp shares can prove to be a powerful tool in securing tax savings and setting free that locked wealth and turning it into charitable good.

One of the biggest impediments in donating the value of C-corp shares to charity is that many charitable organizations are ill-equipped in accepting such a gift and turning it into usable cash.

Unlocking the wealth of C-corp shares for charitable use needs to follow a specific path:

- The owner would need to donate these shares into a charitable vehicle, such as a donor advised fund (DAF), prior to the close of the business sale.
- The value of the C-corp shares are deductible at the fair market value on the contribution date. The value would need to be determined by a qualified appraisal.
- The appraisal must occur within 60 days before the date of the donation and not past the date of the donor’s tax return for the year that the gift is made.
- The shareholder agreements must be reviewed to determine the specifics concerning allowable transfers, timing, and required processes or restrictions concerning how the C-corp shares can be transferred to a charitable vehicle.

By following this path, the donor achieves the following tax savings:

- The donor can receive an immediate income tax deduction in the year they contribute to their donor advised fund. Since a DAF is administered by a public charity, contributions immediately qualify for maximum income tax benefits. The IRS does mandate some limitations, depending upon the adjusted gross income (AGI) of the donor. In the case of the value of their C-corp shares, the donor can receive deduction of up to 30% of AGI and enjoy a five-year carry-forward for unused deductions.
- The donor will incur no capital gains tax on gifts of their C-corp shares provided that they held them longer than one year.
- Their donor advised fund will not be subject to estate taxes.
- The investments in a DAF can appreciate tax-free. At American Endowment Foundation, the donor’s financial advisor can still manage the charitable assets.
- If the donor is subject to alternative minimum tax (AMT), their contribution into a DAF will reduce their AMT impact.