Charitable Planning with Closely-Held Businesses

A Case Study Approach
A planned giving risk management consulting firm, specializing in:
- Non-cash asset receipt and disposition
- Charitable gift annuity risk management
- Gift annuity reinsurance brokerage services
- Appraisals for life insurance and virtual currencies
- Emergency assistance fund administration

To learn more, contact:
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President & Founder
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https://charitablesolutionsllc.com/
Connecting People, Knowledge and Funding to Build a Thriving Pierce County

• Your philanthropic partner
• Traditional and innovative philanthropic solutions
• Suite of charitable funds
• Accept complex gifts
• Individually Managed Funds

To learn more, contact:
Evelyn Ryberg
Sr. Dir. Of Philanthropic Services
Greater Tacoma Community Foundation
eryberg@gtcf.org www.gtcf.org
• Educational and social forum for South Puget Sound estate planning professionals
• Members include Attorneys, CPAs, CFPs, Trust Officers, Chartered Life Underwriters, and other professionals focusing on estate planning
• Meetings occur the second Tuesday of the month from October through May

To learn more, contact:
Thomas Hong
President
Tacoma Estate Planning Council
tsh@fidcouns.com
www.tacomaestateplanning.org
SEC Registered Investment Advisor, wholly owned subsidiary of RSM US, LLP

Pacific Northwest team Specializes in:

- Business transition planning
- Legacy and charitable planning
- Personal financial planning

Local practice supported by 20-member national team that oversees compliance, technology platforms and operational needs

Ranked No. 5 on Accounting Today's Top Firms by AUM, June 2020*

To learn more, contact:
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https://rsmus.com/what-we-do/services/wealth-management.html

Business Owner Pre-Transition Planning is Critical

Pre-Transition (Business & Personal) 1-2 years +

Transition 1 year

Post-Transition Ongoing
Integrated Pre-Transition Planning

Business
• Transition type
• Likely transition structure
• Sell side diligence
• Owner readiness

Personal
• Liquidity & cash flow planning
• Wealth transfer objectives
• Charitable intentions
• Investment planning
• Tax planning strategies
Charitable Planning with Closely-Held Businesses

A Case Study Approach

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Agenda

• Non-Cash Market Overview
• Closely-Held Asset Types
• A 5-Minute Non-Cash Tax Seminar
• Legislative Update
• Reasons Non-Cash Assets are Declined
• Top Ten Non-Cash Questions
• Two Case Studies
Polling Question

For your clients, what assets do you think are most likely to be donated?

1. Real Estate
2. Private Business Interests
3. Cryptocurrency
4. Art/Collectibles
5. Other
Non-Cash Assets: Market Overview

Source: Chart: What Assets Make Up Wealth? (visualcapitalist.com)
Non-cash gifts have more than doubled in contributions and size to only three charities!

Non-cash gift contributions

Average value (size) of non-cash gifts

Source: Charitable Solutions, LLC 2020 based on 2018 990 data
Closely-Held Business Asset Types

• C-Corp
• S-Corp Stock
• Limited Partnerships
• LLCs
A 5-Minute Non-Cash Seminar

• Cash BAD – Everything else GOOD!

• Capital gain property receives a fair market value deduction AND an elimination of capital gains tax if donated to a public charity

• If donated to a private foundation, donations of non-cash assets during life only receive an adjusted cost basis deduction

• Public charities do not have a 5% payout requirement – private foundations do

• Donor advised funds are especially attractive for multiple grants—only one acknowledgment letter needed
Appraisal Considerations

• Appraisal may occur 60 days prior to gift at the earliest, and the latest being the time the donor files the tax return – Donor completes Form 8283 and Charity completes Form 8282

• Pension Protection Act Key Changes
Polling Question

What are the main challenges to non-cash donations from your perspective? Check all that apply.

1. Clients aren’t aware this is an option
2. Other professional advisors aren’t aware this is an option
3. Charities are not prepared to facilitate noncash gifts
4. Process is complex/confusing to clients
5. Other
80% Of All Non-Cash Gifts Rejected

- Tax and Legal Complexity
- Environmental Issues
- Management Issues
- Charity’s Internal Process
- Perceived/Real Risk/Reward Ratio
Top Ten Non-Cash Questions

• Asset Description/Expected Value
• Asset Ownership
• Partial or Entire Interest
• Debt or Other Encumbrances
• Outright, Life-Income or Testamentary
• Capital or Ordinary Asset
• Tax Implications
• Potential Buyers and Offer Status
• Holding Period and Management Issues
• Transfer Timing
Polling Question

Have you helped facilitate a non-cash donation to charity?

1. Yes
2. No
Case Study #1: S-Corp UBIT Solution/Dechomai Asset Trust Donation Flow

Step 1 – DONOR CONTRIBUOTES S-Corp

Dechomai Asset Trust: Nevada Public Charity

Deduction: $1M of S-corp stock with $200K adjusted basis

Step 2 - ASSET IS SOLD

UBIT at trust rates ($800K @ 20%) = $160K in tax but receives 60% AGI deduction to $64K

Step 3 – GRANT TO Greater Tacoma Community Foundation
Case Study #2: Technology Business Sale

Quartz, LLC
Gross Sale Proceeds
$ 60,000,000

minus

Estimated Tax Liability
$ 13,328,000

equals

Net Proceeds
$ 46,672,000

Cash Flow to Plan End
@ 75% Probability of Success
$ 1,400,000

Median Estate Value
at Second Death
$ 42,600,000
Case Study #2: Technology Business Sale

- Quartz, LLC Gross Sale Proceeds: $45,000,000
- Estimated Tax Liability: $6,188,000
- Net Proceeds: $38,812,000

- Dechomai Asset Trust Pre Sale Contribution: $15,000,000
- Full Charitable Deduction
- GTCF Donor Advised Fund
- Ongoing Charitable Contributions

- Cash Flow to Plan End @ 75% Probability of Success: $1,060,000
- Median Estate Value at Second Death: $36,300,000

Charities
Case Study #2: Charitable Giving Results

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<tr>
<th>Owners</th>
<th>Contribution to DAF</th>
<th>Estimated Tax Savings</th>
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<tr>
<td>Owner 4</td>
<td>$5,000,000</td>
<td>$2,300,000</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td><strong>$19,300,000</strong></td>
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Transition Planning: Know Your Experts

• Identify client relationship lead (you)
• Wealth Advisor
• Attorney
  • Personal/estate
  • Corporate Counsel
• CPA (personal & business)
  • Compliance
  • High net worth
  • Assurance
• Other:
  • Valuation
  • Business broker
• GTCF
• TEPC
• Charitable Solutions (Dechomai Asset Trust)
Question & Answer Session
Disclosures

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