Community Foundation for Greater Atlanta

Closely-Held Stock

Do you own a family business? Are you a shareholder in a small company with only a few owners or with your family members? Is it possible that the small business may be sold in the future or transferred to heirs? If you have a controlling interest in a small business, are you weary about the negative tax impact of selling or transferring it to your children? Would you also like to make an impact in your community but do not know how to effectively do so? Would you be open to efficient gift planning strategies to ensure the optimal benefits for your family as well as causes that you care about?

If you answered "yes" to any of these questions, then a charitable gift of closely-held stock may be suitable for you.

Closely-held stock is defined as shares in a company owned by a single owner or a small group of controlling shareholders. Shares of family businesses and small LLC's and partnerships typically qualify as closely-held, which is in contrast to widely-held stock, wherein thousands of investors or more invest in a company.

Although many people only consider cash or publicly-traded securities as appropriate methods of charitable giving, gifts of closely-held stock are advantageous because the stocks are often highly appreciated and can provide amplified gifts at a low cost to donors.

Charitable contributions of closely-held stock are highly effective for both nonprofits and donors because gifts can be structured in a way that can maximize overall benefits. Gifts of closely-held stock can take the form of outright gifts, charitable lead trusts, charitable remainder trusts or bequests.

General benefits of charitable gifts of closely-held stock:

- By donating closely-held stock, donors can increase giving, while preserving control over business operations.
- Because the Community Foundation for Greater Atlanta is a public charity, rather than a private foundation, the charitable deduction allotted for the donation would be equal to the fair market value of the shares donated, rather than the cost basis.
- If a donor's closely-held stock is in a company that will likely be sold or transferred in the near future, a charitable gift of the stock can significantly reduce a donor's tax consequences.
- Because the Community Foundation for Greater Atlanta is a public charity, rather than a private foundation, donors can make charitable deductions of up to 30% adjusted gross income (AGI), whereas donations to private foundations are subject to a 20% AGI deduction limit.

Many individuals choose to donate their closely-held stock when considering selling their family business in the future or before passing along the business to their children. In doing so, donors can reduce capital gains and estate taxes.

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How It Works

Stephanie and John have operated an office supply company that has gained success over the years. Their children have pursued different fields and do not wish to inherit the company, so they have decided to sell their business and live off of the proceeds from the sale. Stephanie and John have decided that they would like an annual income of $120,000 to provide for the remainder of their life, which is approximately 20 years. Originally, they thought that a charitable contribution after the sale would help alleviate the increased tax bill. However, a charitable contribution establishing a donor-advised fund at the Community Foundation before the sale of their business would actually be more beneficial to Stephanie and John as well as the causes that they care about.

According to their accountant, Stephanie and John's company is currently valued at about $4,000,000. If they were to sell the entire company, they would have to pay approximately $1,000,000 in taxes.

If Stephanie and John were to donate 40% of the stock ($1,600,000) in their company before selling it, they would maintain their status as the primary shareholders in the company. When they do sell, they would have to pay around $600,000 in taxes on the $2,400,000 value of the proceeds. Because of their contribution, they would receive a $1,600,000 charitable income tax deduction.

After the donation, sale and deduction, Stephanie and John would have more than enough to meet their retirement income goals and they would be able to make a much larger gift that would leave a legacy in their community.

About us

Since 1951, the Community Foundation for Greater Atlanta has been a trusted philanthropic resource for our 23-county metro Atlanta region. We do this through our mission of providing quality services to donors and innovative leadership on community issues.

Interested in gifts of closely-held stock?

For more information, contact Christy Butler Eckoff, J.D., LL.M., director, gift planning at ceckoff@cfgreateratlanta.org or 404.588.3183.