

# A CASE STUDY: ESTABLISHING A DONOR-ADVISED FUND WHEN SELLING A BUSINESS

Selling a business yields substantial gains that trigger substantial tax implications. There are significant tax advantages in donating a portion of a business to the Donor-Advised Fund before the sale occurs.

Philanthropically minded individuals and families can use Donor-Advised Funds (DAF) to decrease tax liability, empowering them to create a personalized charitable giving strategy. Over the years this will bring loved-ones together as they jointly support charities and causes they care about most through grants and impact investments.

## Case Study

A family is selling their business for \$10 million. As a service business, the company has no debt. Their taxes will include a 20% capital gains tax and a 7% state tax. Combined, the sale will be subject to a total tax of 27%.

The family expresses to their financial advisor they would like to be charitably active in retirement. Their financial advisor suggests donating \$2 million of the equity from the sale of the business into their Donor-Advised Fund to decrease the taxes paid on the gain and establish a family gifting program through the fund.

The table below explores three different scenarios in the sale of the business;

- Sale with no donation
- Donation after they sell the business
- Donations before they sell the business

	No Donation	Donation After the Sale	Donation Before the Sale
<b>Sale Price</b>	<b>\$10,000,000</b>	<b>\$10,000,000</b>	<b>\$10,000,000</b>
<b>Donation Prior to Sale</b>	\$0	\$0	\$2,000,000
<b>Cost Basis</b>	\$100,000	\$100,000	\$100,000
<b>Taxable Amount</b>	\$9,900,000	\$9,900,000	\$7,900,000
<b>Taxes</b>	\$2,673,000	\$2,673,000	\$2,133,000
<b>After tax equity</b>	\$7,327,000	\$7,327,000	\$5,867,000
<b>Donation After Sale</b>	\$0	\$2,000,000	\$0
<b>Final Equity</b>	\$7,327,000	\$5,327,000	\$5,867,000
<b>Gift Tax Deduction</b>	\$0	\$2,000,000	\$2,000,000
<b>Income Tax Savings @ 44% TB</b>	\$0	\$880,000	\$880,000
<b>Final Equity plus Tax Savings</b>	<b>\$7,327,000</b>	<b>\$6,207,000</b>	<b>\$6,747,000</b>



By first transferring the \$2 million of equity into their University Impact DAF and then selling that portion of their business the family is able to eliminate the capital gains tax on the \$2 million.

Thus the \$2 million donation placed in the DAF only cost \$540,000 net after taxes. This family will bestow \$2 million worth of generosity. Any additional gains after the donation into the DAF are tax-free and are then able to be donated as well.

As you can see, selling the equity after the funds are donated into the DAF creates the most significant tax break. Not only do you receive a tax deduction on the gift, but you also eliminate capital gains on the portion your DAF sold.

***Find out how a Donor-Advised Fund with University Impact can help empower you and your family's focus on giving and investing in the outcome-focused impact that can change the lives of people near home and around the world. Contact UI Managing Director, Daniel Blake at [dan@uimimpact.vc](mailto:dan@uimimpact.vc).***

The **UI Triple DAF** is a Donor-Advised Fund hosted by University Impact, a registered 501(c)3 nonprofit, that enables donors to amplify their philanthropy. In addition, by hosting their DAF with UI, Donors are also supporting the training of the next generation of social impact leaders, who are gain real-life experience in donor impact. Learn more at [uitripledaf.org](http://uitripledaf.org).

*1 Please remember that there are annual income tax deduction limits for gifts made to public charities, including donor-advised funds. For contributions of non-cash assets held more than one year, like the hypothetical situation above, is 30% of adjusted gross income (AGI) for the tax year of the gift. It is 60% of AGI for contributions of cash. You may carry over donation amounts in excess of these deductions for up to five tax years.*

*2 University Impact is a 501(c)3 public charity, which means it generally will not pay capital gains taxes on its sale of the S-corp stock. As a shareholder, University Impact 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. University Impact pays these taxes with the proceeds of the sale.*

*The tax information provided is general and educational in nature, and should not be construed as legal or tax advice. University Impact does not provide legal or tax advice. Content provided relates to taxation at the federal level only. Charitable deductions at the federal level are available only if 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. Always consult an attorney or tax professional regarding your specific legal or tax situation. University Impact is a registered 501(c)3 nonprofit in the United States. University Impact is the DAF host who manages all aspects of the fund.*

**CONTACT YOUR FINANCIAL ADVISOR OR UNIVERSITY IMPACT TO LEARN MORE ABOUT SETTING UP  
A DAF WITH YOUR DONATION OF A PRIVATE-BUSINESS.**

**Contact UI Managing Director, Daniel Blake at [dan@uimimpact.vc](mailto:dan@uimimpact.vc).**

***[contact@uitripledaf.org](mailto:contact@uitripledaf.org)  
[uitripledaf.org](http://uitripledaf.org)***