

Benefits of Donating Privately-Held Business Interests to a Donor-Advised Fund Prior to a Sale

One option to maximize the impact of a donor's charitable giving is by donating a portion of a privately-held business interest. This includes interest in Limited Liability Companies (LLC), Limited Partnerships (LP), C-corporations, and S-corporations.

The most tax-efficient way for an individual to donate privately-held business interests is through a Donor-Advised Fund (DAF) *prior* to the sale of the business for the following reasons:

1. It creates a personal tax deduction for the donor. The donor may claim a fair market value charitable deduction for the tax year that the interest is donated.
2. By donating prior to the sale, the donor does not have to pay capital gains taxes on the portion of the business that was donated.

The Donation Process

University Impact's (UI) streamlined processes make the donation process simple and efficient. Here are the steps:

1. **Decide what amount will be donated** - The donor will need to choose what amount of the business interest they want to allocate to the DAF.
2. **Due Diligence by UI** - The donor will need to provide a series of documents (articles of incorporation, operating agreement, stockholder agreements, etc) to UI for due diligence.
3. **Set up a DAF & sign the Gift Agreement** - The donor (or the financial advisor on the donor's behalf) will need to set up a DAF account at UITripleDAF.org. UI will then draft a gift agreement, which transfers the ownership over to the DAF. The gift agreement needs to be signed *before* any binding sale agreement is signed.
4. **Appraisal on business interest** - The IRS requires that a third-party appraiser values the donation to determine its fair market value. The appraisal can occur from 60 days before the date of donation up until you file your taxes.
5. **File Tax Form 8283** - The appraisal company will help complete and sign the Tax Form 8283. UI also needs to sign this form.

The UI team will work with the donor, their attorney, and their CPA when applicable, to review all aspects of the donation (tax implications, UBTI, any other liabilities, etc.).