



Giving Taxable Corporate Business Interests

Gifts of appreciated business holdings will allow you a greater opportunity to support the ministries closest to your heart. The tax benefits of giving the asset, rather than selling or retaining it in your name, can be significant. For example, you avoid personally paying current income taxes on the income of a Sub S Corporation, in addition to receiving a deduction of the fair market value of the gift.

Recent Trends


Over 50% of U.S. corporations are organized as Subchapter S corporations. Until 1998, tax laws effectively prohibited a charity from owning any stock of an S corporation; thereby severely limiting a donor's ability to give from their wealth. If a charity held Sub S stock, the consequences were harsh, causing the corporation to lose its S corporation status – thereby subjecting the corporation to general corporate income tax laws. The Small Business Job Protection Act of 1996 opened the door for generous giving by permitting a charity (but not a charitable remainder trust) to be an eligible shareholder of an S corporation beginning January 1, 1998. Much care must be exercised, however, from the charity's perspective, in that all income from the S corporation ownership position is subject to taxation as unrelated business income tax (UBIT). Even the gain from the sale of the S corporation stock will be subject to UBIT.

What are some of your considerations as a potential donor of your S Corporation stock?

- *Ongoing Tax Obligations:* Tax exempt organizations are usually exempt from taxation, but not if they hold S Corporation stock. As the charity will be required to pay income taxes based upon earnings and gain from sale, cash will be needed to fund the tax liability. Usually this is funded through the S Corporation dividends or is taken from the sale proceeds. It will have the effect of lowering the amount of funds available for gifting inside the NCF Giving Fund (donor advised fund) by the amount of the tax obligation. The trust handles all of the associated tax filings directly.
- *Appraisal:* As with all gifts of closely held securities, you will need to obtain an appraisal for the value of the gifted shares. The appraised value will establish the value of your deduction. Note that appraisers may slightly reduce the fair market value (FMV) of the stock by a marketability discount.

Why is The National Christian Foundation your wise alternative in giving Subchapter S stock?

The National Christian Foundation receives gifts of Subchapter S stock into an entity which is organized as a trust. NCF Charitable Trust (NCT) enjoys an advantage in that the tax rates of a trust are often lower than the tax rates paid by charitable corporations. Additionally, as NCT makes charitable grants annually, the



trust is able to claim a charitable deduction of 50% of adjusted gross income for cash or 30% of adjusted gross income for publicly traded securities. This further reduces the tax liability and, therefore, maximizes the funds available for gifting. Given the state of organization for the trust, this often enables the trust to save the state taxes due for operating income or gain on sale.

Quarterly earnings in excess of taxes and fees due, as well as the sale proceeds net of taxes, are placed into your Giving Fund. These dollars are then available for your giving recommendations. Any funds not gifted right away will be invested in consideration with your investment recommendations. Fund balances, of course, grow tax free.

The National Christian Foundation, through NCF, provides you with the expertise and experience you need to accomplish your giving objectives, and to give more generously to further the mission you believe in.

For more information on giving Taxable Corporate Business Interests through NCF, call 800.681.6223.