

DONATING CONCENTRATED STOCK TO A PRIVATE FOUNDATION

Holders of concentrated stock positions typically understand the complexities and risks associated with owning these shares; however, they sometimes struggle when determining the best courses of action to take for reducing those risks. For shareholders with philanthropic intent, a private foundation may be worth considering, as funding a private foundation with concentrated stock can provide benefits both to the shareholders and to charitable organizations.

What is a private foundation?

A *private foundation* is a charitable entity that does not qualify as a public charity and that is established and funded by a single individual or family. It is a tax-exempt entity with the primary purpose of making grants to qualified charities.

Benefits of a private foundation

Because the private foundation is tax-exempt, shares donated to it can be sold without having to pay capital gain taxes associated with the position. When the shares are donated, the donor receives an immediate charitable income tax deduction equal to the fair market value of the stock. An additional tax benefit is that the donated shares are removed from the shareholder's taxable estate.

Once the private foundation has been funded, the donor can control where charitable grants are made and how assets are invested. The foundation can also provide an effective framework for creating a philanthropic legacy through the appointment of family members to its board.

Example: private foundation*

Ms. Jones owns a highly appreciated position, currently worth \$3 million, in XYZ Corporation. Ms. Jones is very philanthropically minded and is looking

to create a charitable legacy for her family. She would like to create a private foundation funded with \$1 million of XYZ shares that have a cost basis of \$200,000.

When the shares are donated to the foundation, Ms. Jones may receive a \$1 million charitable income tax deduction. The shares will then be sold by the foundation—without incurring capital gain tax—and allocated into a diversified portfolio by Ms. Jones's financial advisor. Ms. Jones and four additional family members will be named to the board of directors. The foundation will carry out Ms. Jones's charitable intent by providing grants to charitable causes that board members believe are worthy of support.

*This is a hypothetical example and is for illustrative purposes only. No specific investments were used in this example. Actual results will vary. There can be no assurance of positive performance from the portfolio.

Considerations

Private foundations require legal expertise to establish and administer, which can lead to significant expense. They also require strict adherence to complex reporting requirements and IRS compliance. Therefore, while they can be excellent charitable planning tools, because of the complexities involved in creating and managing them, private foundations are most appropriate for those who intend to make very large donations.

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