



Complex Assets

Business ownership gift results in nearly \$2 million capital gains tax cut

Scott and Kim Wedgeworth started their staffing company 27 years ago. They were blown away to discover their business, an LLC taxed as a partnership, was worth millions.

Working with an investment banker, they set a price and put the business on the market that would prepare them for retirement and allow them to support the community. It didn't take long for a buyer to make an offer. Because they had used ownership as an executive performance incentive over the years, the Wedgeworths would share the proceeds of the sale with two long-time, fully vested employees.

To offset the tax hit, the Wedgeworths and the executives gifted portions of their stakes in the firm to a donor-advised fund created through Renaissance Charitable Foundation (RCF), a 501(c)(3) public charity that operates donor-advised fund programs. By making the gifts before the sale is "all but certain to occur,"* the donors claimed a charitable income tax deduction equal to the value of the gifts – and a corresponding reduction in capital gains taxes.

The Wedgeworths' gift of \$9 million in business ownership to the donor-advised fund allowed them to avoid \$1.8 million in capital gains taxes (assuming a 20% cap gains rate), and the executives' gifts of \$650,000 each to the donor-advised fund allowed each of them to avoid \$130,000 in capital gains taxes.

While there were a lot of moving parts required in making their charitable gifts, the effort was worth it: The Wedgeworths and their executives generated the greatest possible value from their business ownership while also using the proceeds to support their community – something the Wedgeworths could only have dreamed of doing a quarter-century ago.

* This is important to ensure that the IRS does not designate the gift as a simple assignment of income and classify it as a sale by the founders followed by a cash gift. Donors need to work with their tax professionals to time the gift correctly.

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This example is hypothetical and for educational use only. The situations, tax rates, or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability. RCF reviewed all due diligence documents including the business' governing documents, audited financials, and tax returns.

- Sale of 27-year-old business with zero cost basis will generate big capital gains tax hits for founders and stock-vested executives.
- They gift portions of their ownership to DAF: \$9 million gift from founders, \$650,000 each from two executives.
- Results: \$1.8 million in capital gains tax savings for founders, \$130,000 each for executives.



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