

# GIFTS OF NON-CASH ASSETS

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## CLOSELY HELD BUSINESS INTERESTS



THE CHICAGO  
COMMUNITY TRUST  
AND AFFILIATES

Much of the wealth created and held in the United States is in the form of closely held business interests, including limited liability companies, limited partnerships and private corporations. While many of the owners of these businesses are philanthropic and want to give back, understanding the rules that apply to making gifts of closely held business interests can be challenging.

For donors who have created wealth through closely held business interests, funding a donor advised fund with the Trust may be the ideal way to leverage an illiquid, highly appreciated asset for charitable giving.

Why give closely held business interests to the Trust?

- Potential ability to deduct the fair market value of the contributed stock
- Avoid recognizing capital gains on the contributed shares
- Flexibility and ease of giving through a donor advised fund

The Trust may accept the following closely held business interests on a case-by-case basis:

- C-Corp stock
- S-Corp stock
- Private equity interests
- Hedge fund interests
- Limited Liability Company units
- Limited Partnership interests

Some closely-held business interests may pose greater challenges to both the donor and the Trust. If a business is structured as a Subchapter S corporation, additional due diligence and documentation may be required. For instance, Subchapter S stock often will generate unrelated business taxable income (UBTI) to the Trust during the time that the Trust holds the shares. Before accepting a donation of Subchapter S stock, the Trust will ask that the donor agree to cover any UBTI liability generated during the holding period.

Before the Trust can accept a gift of closely held business interests, the donor should provide the following documents for review:

- A description of the asset
- Applicable governing documents for the business, such as Articles of Incorporation, Operating Agreement or Partnership Agreement
- An appraisal of the asset's fair market value (obtained by the donor)
- Anticipated liquidation or redemption plan, when applicable
- Additional documentation, as needed on a case-by-case basis

The anticipated timeline for completing the contribution is 6 to 8 weeks, depending on the complexity of the transaction.

Any potential donor of closely held business interests should consult with a tax attorney or accountant prior to making the gift to ensure the contribution aligns with the donor's goals and objectives. This is especially true if the donor is contributing shares prior to an anticipated sale of the company. The Trust cannot provide tax or legal advice to potential donors.

If a potential donation of closely held business interest will not generate liquidity (either through a sale or dividend payments) for an extended period of time, the Trust may ask the donor to make a tax-deductible gift of cash or marketable securities to the Trust to cover any grant making or administrative fees applicable to the donor's fund.

For more information about gifts of closely held business interests, contact Tim Bresnahan, Senior Director of Gift Planning, at [tbresnahan@cct.org](mailto:tbresnahan@cct.org) or 312.565.2832.

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### **CASE STUDY**

Judith and Steven co-own a closely held corporation that produces ball bearings for large heavy machinery. The company is organized as a C corporation. Judith and Steven are thinking about selling their company in the next 12 months, and they would like to give part of the company away to charity now, well in advance of the sale. Both owners would like to support a variety of charities through the contribution of company stock.

The co-owners' accountant recommends setting up a donor advised fund with the Trust and funding it with shares of the company. The Trust can hold the shares until Judith and Steve decide to sell the company. Upon the sale of the company, the shares in the advised fund will be exchanged for cash, allowing Judith and Steve the ability to make grants to other charitable organizations that they support.

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