

# The Charitable Power of Donating Private Stock



Donating private stock to a donor-advised fund (DAF) is a powerful philanthropic strategy that offers significant tax advantages, especially when structured prior to the sale of a business. By gifting the shares directly, the donor can bypass capital gains tax on the appreciated value of the stock, while also receiving a charitable deduction for the full fair market value of the donation. This dual benefit makes it a highly effective way to give.

## The Appeal of Donating Private Stock

The primary benefit of donating appreciated private stock is the avoidance of capital gains tax. When you sell a highly appreciated asset, the profit is taxed. By donating the stock directly to a DAF, which is a public charity, you transfer the asset before it's sold, allowing the DAF to sell the shares without incurring capital gains tax. This preserves the entire value of the stock for your charitable purposes.

The following scenarios illustrate the after-tax financial benefits of this approach compared to selling the stock and donating the cash proceeds. For this example, we'll use a \$1,000,000 stock value with a \$100,000 basis, and assume a long-term capital gains tax rate of 25% and an income tax rate of 35% for the donor.

Financial Metric	Scenario A: Donate Stock Directly to DAF	Scenario B: Sell Stock, Then Donate After-Tax Cash	Difference (A - B)
Initial Stock Value	\$1,000,000	\$1,000,000	\$0
Stock Basis	\$100,000	\$100,000	\$0
Calculated Capital Gain	N/A	\$900,000 (\$1M - \$100K)	N/A
Capital Gains Tax Paid (25% rate)	\$0	\$225,000 (\$900K x 25%)	\$225,000
Available Cash / Donated Value	\$1,000,000	\$775,000 (\$1M - \$225K)	\$225,000

Financial Metric	Scenario A: Donate Stock Directly to DAF	Scenario B: Sell Stock, Then Donate After-Tax Cash	Difference (A - B)
Charitable Deduction Claimed	\$1,000,000	\$775,000	\$225,000
Income Tax Savings (35% rate)	\$350,000 (\$1M x 35%)	\$271,250 (\$775K x 35%)	\$78,750
Net Financial Benefit (Savings - Tax Paid)	\$350,000 (Savings)	\$46,250 (\$271,250 Savings - \$225,000 Tax)	\$303,750

This double tax benefit (avoiding \$225,000 in capital gains tax and saving an additional \$78,750 in income tax) results in a total net financial advantage of \$303,750 to the donor while maximizing the charitable gift.

## A Complex, Case-by-Case Process

While the tax benefits are clear, the process for donating private stock is more complex than gifting publicly traded securities. This is not a universal practice; many DAFs, particularly smaller ones, lack the resources and expertise to handle such assets. The process is typically managed on a case-by-case basis and involves a thorough due diligence review by the sponsoring organization.

## Key Steps and Considerations

### Due Diligence:

The DAF sponsoring organization will conduct a review of the private company. This includes examining the company's financials, governing documents, and any shareholder agreements to understand transfer restrictions and potential liabilities.

### Qualified Appraisal:

To claim a tax deduction for the fair market value, the IRS requires the donor to obtain a qualified appraisal of the private stock from an independent appraiser. This appraisal determines the fair market value of the shares at the time of the donation.

### Timing is Crucial:

The donation must be completed before any binding sale agreement for the company is in place. If the sale is essentially guaranteed before the donation, the IRS may challenge the tax benefits under the "anticipatory assignment of income" doctrine.

### Acceptance and Liquidation:

If the DAF accepts the stock, it will work to liquidate the shares, often in conjunction with a sale of the company or a redemption by the company itself. The proceeds from the sale are then deposited into the donor's DAF account, ready to be granted to qualified charities.



## Finding the Right DAF

Donors interested in contributing private stock should have their advisors proactively research and contact DAF sponsoring organizations to inquire about their policies on accepting such assets. Larger DAFs and many community foundations are often equipped to handle these types of contributions. It is advisable to consult with legal and tax advisors to navigate the complexities of the donation process and ensure compliance with all IRS regulations.



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[www.naviterwealth.com](http://www.naviterwealth.com)  
[team@naviterwealth.com](mailto:team@naviterwealth.com)  
501.333.9800

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