GLENMEDE
PRIVATE WEALTH

Donating Business Interests to a Donor-Advised Fund

Donor-advised funds (DAFs) are beneficial for their potential tax efficiency, flexibility, and simplified administration. Beyond traditional cash contributions, DAFs may also accept certain noncash assets, including closely held business interests, which in certain circumstances may offer enhanced tax and planning advantages for business owners, their families, and key stakeholders.

Tax Implications

Donating closely held business interests to a DAF may allow donors to contribute appreciated assets while potentially avoiding capital gains taxes that would otherwise apply upon a sale. Donors may also be eligible for a federal income tax deduction based on the fair market value of the business interest contributed to a DAF (subject to IRS limits and substantiation requirements), versus a deduction of the lesser of fair market value or cost basis if contributed to a private foundation. In the right circumstances, contributing a business interest in-kind may provide tax benefits that may exceed those from contributing cash proceeds after a sale.

Closely held business interests represent ownership shares held by a small group, such as family, founders, and other stakeholders. Shares are typically not traded on public stock exchanges.

Timing and Structure

Contributions to the DAF must be completed before any legally binding agreement to sell the business is in place to avoid adverse tax consequences; always consult tax and legal advisors first. In addition, gifts of closely held business interests require careful evaluation, valuation, and approval by the DAF sponsor, including due diligence related to liquidity, potential unrelated business income tax, and transaction feasibility. For example, the company's shareholder and operating agreements, articles of incorporation, and other governing documents must be reviewed to confirm that there are no transfer restrictions that prohibit the gift or embedded liabilities related to the gifted interest. Since DAF sponsors typically look for a path to liquidity before accepting closely held business interests, contributions of such assets usually occur in advance of transaction-related negotiations and sale activity, but with an eventual sale in mind.

Philanthropic Goals

There are many advantages to DAFs for both donors and the charities they support. When properly executed, donating business interests to a DAF can help align liquidity events with philanthropic goals, convert illiquid assets into funds available for long-term, tax-free growth, and ultimately increase charitable impact. With guidance from your Glenmede advisor and coordination with the DAF sponsor, donors can navigate the complexities and realize both philanthropic and tax-efficiency objectives.

Maximizing Your Impact

The ability to use a DAF to receive a range of illiquid, nonpublicly traded assets provides an opportunity for donors to enhance their charitable impact and potentially decrease their tax liability. Work with your advisor to explore your options for donating closely held business interests to a DAF.

For more information on donating business interests, reach out to your Glenmede Relationship Manager.