



Gifts Of Closely Held Business Interests

The goal of a successful closely held business transaction: to free-up capital in a tax advantaged way via a strategic transfer of control.

What Are Closely Held Interests?

While there are ready markets for publicly traded financial interests and most categories of real estate, there is a tremendous amount of capital invested in holdings that are not readily marketable. The most common are closely held interests owned by the principals of the subject business, although venture capital, passive partnership or corporate holdings, and minority investments in a small business are also common.

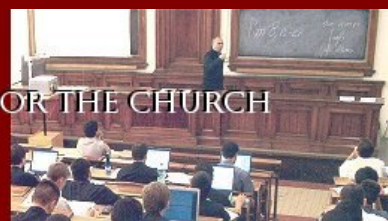
What Are Some Common Issues for Closely Held Interests?

In addition to a lack of liquidity, typically there are two primary consequences if the capital structure of a closely held interest is altered: taxes are levied at both the corporate and personal level, and control of the business is jeopardized. The mirror image of these problems outlines the goal of a successful closely held business transaction: to free-up capital in a tax advantaged way via a strategic transfer of control.

Why Consider a Charitable Gift with Closely Held Interests?

As with publicly traded securities, if the interest is transferred outright to the Foundation, significant taxes may be avoided. In exchange for a life income agreement, you may also secure a lifetime income. A Charitable Lead Trust could be employed to reduce or eliminate gift or estate taxes while maintaining family control of the business. The Foundation could sell the interest back to the corporation, the employees (ESOP), the heirs, other shareholders, or a combination of all four, effectively transferring control. While the Foundation cannot be legally bound to sell the shares it receives, the market for such shares is typically limited to the four mentioned above.

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Are There Other Special Considerations with Gifts of Closely Held Interests?

The IRS requires the value of the transferred interest be documented through a qualified appraisal if the donation exceeds \$10,000. Also, gifts of closely held interests require a higher degree of collaboration between the Foundation and the owner compared to gifts of publicly traded securities. Lastly, an S corporation ("S corp") or partnership creates issues that do not arise with a C corporation ("C corp"). If the corporation is an S corp, a gift to the Foundation can cause the corporation to lose its S corp status. However, there may be opportunities to successfully complete such a gift, especially if the loss of S corp status may not be important, or if the owner is already considering a sale of the stock to a third party. For more information, please read our manuscript entitled Frequently Asked Questions Regarding Gifts of Privately Held, Family, Restricted, or Venture Securities.



How can the Gregorian University Foundation be of assistance?

Charitable planning is a highly specialized skill. We have staff specialists and resources available to support both your investigation and implementation of gift planning techniques. Our services are professional, confidential, collaborative and provided without cost or obligation. We encourage you to call on us to assist you, your family and advisors in exploring charitable opportunities in estate and financial planning.

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