PHILANTHROPY AND BUSINESS SUCCESSION CHECKLIST

When planning their exit from business, we have heard many business owners say that they:

- Are looking forward to their next chapter,
- Would like to give back,
- Intend to increase their involvement in the community, and
- Would like to use their skills to solve problems.

Yet, planning for a business exit is time-consuming and, perhaps, all-consuming, making it difficult to plan for what comes next. To be effective, the business owner interested in engaging in philanthropy or creating purpose should begin planning well before the business exit.

As you are planning to engage in a philanthropic and purpose-driven life beyond business, there are some important considerations to keep in mind.

✓ **Understand what motivates you:** People engage in philanthropy for many reasons. Each person's motivation is unique. However, no matter the motivation, philanthropy can produce tax benefits. Consider why you wish to engage in the activities to come. If tax savings is your only reason, perhaps you will find the result somewhat hollow. While saving taxes is important, creating philanthropic structures costs money and may require time. Be sure you understand what it is you really want to do.

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- ✓ **Understand what you will use to fund your philanthropic endeavors:** You have many assets. Although, if you are like many business owners, most of your wealth may be tied up in your business. If you intend to use business interests to fund your philanthropic endeavors, how your business is structured can make a difference, especially for tax purposes. There are many different types of business structures. There are corporations subject to tax under subchapter C (a C corporation) or subchapter S (an S corporation) of the Internal Revenue Code (IRC). There are limited liability companies, which can be taxed like a C corporation, an S corporation, a partnership or an individual (considered a disregarded entity for tax purposes). There are partnerships, both limited and general. Each business form has different tax attributes both for the owner and when giving to charity. As you are planning your exit, it is important to consult with your personal tax advisors to understand what you own, how you intend to fund your philanthropic endeavors and the tax consequences of each option.

- ✓ **Understand your philanthropic and purpose-driven options:** There are many ways to engage in philanthropy and a purpose-driven life. Of course, one way is to simply give cash to a well-known charitable organization. However, that may not be your desired path. Many business owners and their families desire to remain involved with their philanthropy, making it an integral part of their lives. To that end, many families create charitable organizations to accomplish their goals. There are many types of charitable organizations that can be used to attain various ends. It is important to know what each charitable organization can and cannot do, how each functions and the tax consequences. Many families use multiple charitable entities, "stacking" charitable vehicles to accomplish multiple goals simultaneously. Goals can include philanthropy, advocacy, social investment, business league involvement and community membership work. With such disparate goals, it is important to create the right organizations. There are private foundations; donor-advised funds; private operating foundations and so-called "public charities" that are tax-exempt under IRC § 501(c)(3); social welfare advocacy organizations that are tax-exempt under IRC § 501(c)(4); labor, agricultural or horticultural organizations that are tax-exempt under IRC § 501(c)(5); business leagues that are tax-exempt under IRC § 501(c)(6); and recreational organizations that are tax-exempt under IRC § 501(c)(7). There are also organizations that can engage in political influence created under IRC § 527. When combined with your family's for-profit business entities, stacking multiple charitable vehicles (some of which may own interests in the business) may allow your family to deploy capital, resources and expertise across the entire philanthropic and purpose-driven spectrum. The great disparity in rules and tax consequences pertaining to the many charitable vehicles necessitates that you consult with your personal tax advisors when planning your and your family's philanthropic and purpose-driven program.

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- ✓ **Consider engaging your family:** Even if you own the entire business, moving resources to a philanthropic endeavor reduces amounts available for your family's personal use. Failing to engage your family when planning could lead to resentment, or (in a worst case) litigation. By engaging your family in your plan, you can instill a culture of purpose, a bond of togetherness and future direction for the family. Family harmony, particularly with respect to money, can help allow for your family's future success. Philanthropy and purpose can be a way to hold a family together over multiple generations.
- ✓ **Understand your timing:** Timing is important. For certain plans to work as desired, advance planning is necessary. For example, donating an asset to a charitable organization immediately before its sale may not produce the desired result. The Internal Revenue Service (IRS) could invoke the *assignment of income doctrine*. As a result, instead of avoiding a capital gain on the sale (because the charity sold the asset), the IRS would deem you to have sold the asset (realizing a capital gain) followed by a donation of cash. If you have already received a letter of intent with respect to the sale of your business, it is very late to be engaging in such planning. Of course, every transaction is different. It is important to work with your personal tax advisors to consider the consequences of your particular transaction and determine the best approach for you and your family.
- ✓ **Build the Right Team:** The world is a very complex place. Very few advisors can be expert in all things. As you begin to plan your exit from a business, build a team of advisors who can work with you to develop plans that best suit your family's goals and tax strategies. Your advisors might include attorneys, accountants, bankers and valuation experts, among others. If your plans include philanthropy and a purpose-driven life, consider including on your team professionals who specialize in those things. The PNC Private Bank Hawthorn® Philanthropy & Impact team is available to assist you with your philanthropic planning and endeavors.

For more information about how philanthropy and purpose-driven projects can fit into your family's plans, contact any member of your PNC Private Bank® team.

For more information, please contact your PNC Private Bank advisor.