



# Benefits of Donating IPO Stock to Charity

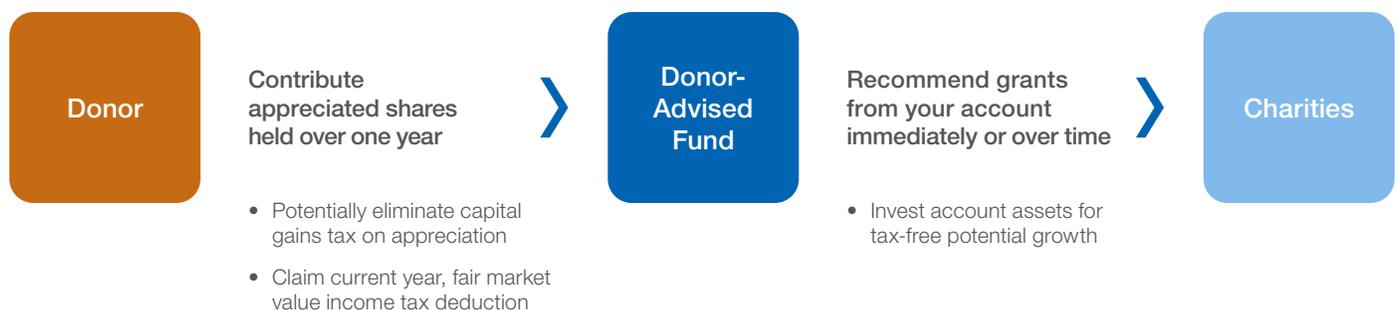
A tax-smart approach to maximize your philanthropic impact

by the Charitable Strategies Group at Schwab Charitable

An initial public offering (IPO) can accelerate appreciation of private company stock held by founders, executives, and early employees. High appreciation before or after the IPO may result in a wealth event with substantial capital gains taxes when you sell shares of the stock. Donating some of your shares—either during or after the lock-up period—may provide a unique opportunity to leverage one of your most valuable investments to achieve maximum impact with your charitable giving.

If you itemize deductions on your tax return instead of taking the standard deduction, donating stock can unlock additional funds for charity in two ways. First, you potentially eliminate the capital gains tax you would incur if you sold the shares yourself and donated the proceeds, which may increase the amount available for charity by up to 20%. Second, you may claim a fair market value charitable deduction for the tax year in which the gift is made and may choose to pass on that savings in the form of more giving.

Donor-advised funds, which are 501(c)(3) public charities, provide an excellent gifting option for donations of pre- or post-IPO stock, as the funds typically have the resources and expertise for evaluating, receiving, processing, and liquidating this type of gift. How does gifting IPO stock to a donor-advised fund work?



Please be aware that gifts of appreciated non-cash assets can involve complicated tax analysis and advanced planning. This article is only intended to be a general overview of some donation considerations and is not intended to provide tax or legal guidance. In addition, all gifts to donor-advised funds are irrevocable. Please consult with your tax or legal advisor.

## Case study: making a larger gift while increasing tax savings

To illustrate the benefits of donating pre- or post-IPO stock, consider Sarah, who was the fifth employee hired at ABC, a start-up tech company. To encourage Sarah to stay with ABC and help the company grow, ABC offered Sarah incentive stock options, which she exercised a couple of years ago.

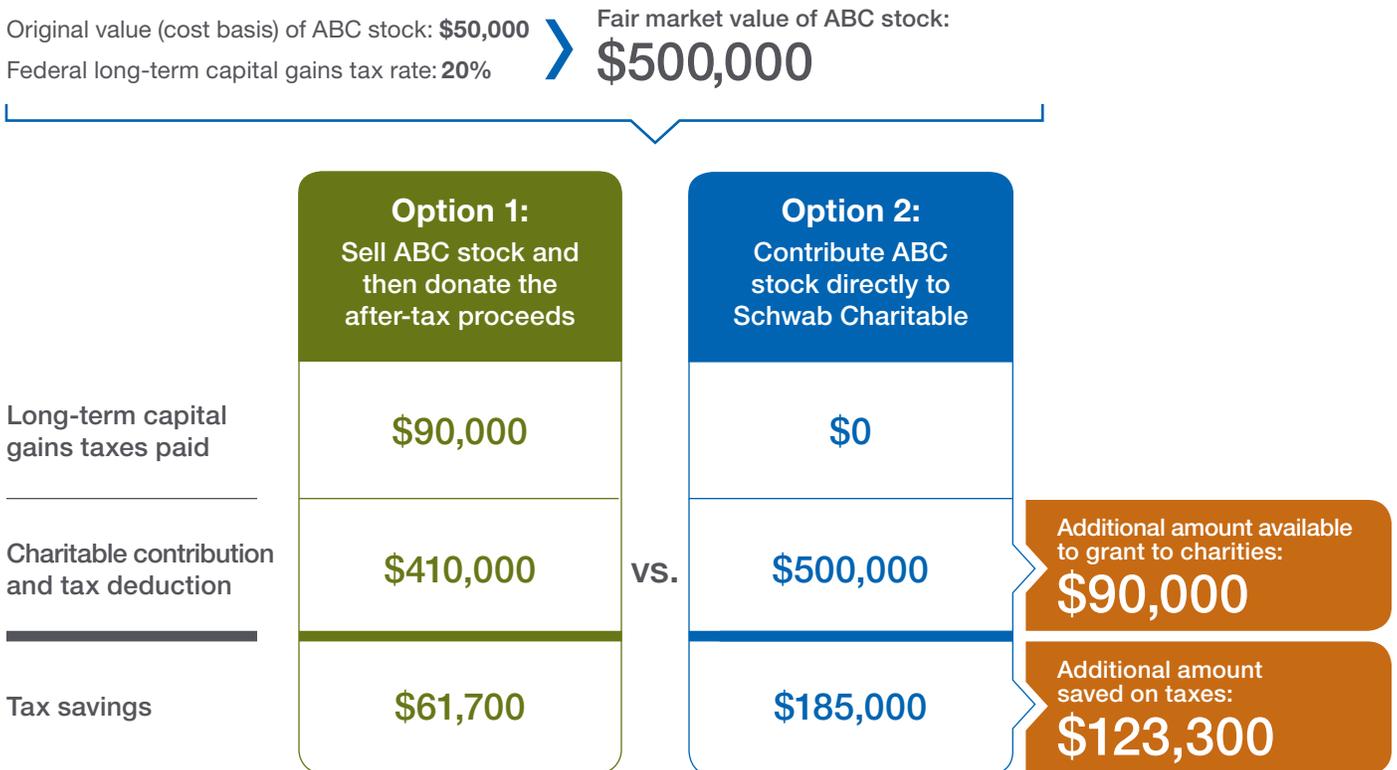
ABC is now a successful and growing company with increasing revenue year-over-year, and executives took the company public several months ago. With the stock experiencing significant appreciation since the IPO, and with the six-month lock-up expiring in less than a month, Sarah plans to use some of her appreciated stock to provide financial support to her favorite charities this year through her donor-advised fund account.

Sarah consulted her company’s corporate counsel—and the staff at her donor-advised fund—to earmark 5,000 shares valued at \$100 per share, resulting in a total contribution of \$500,000 to her donor-advised fund account. Sarah’s cost basis for the shares is \$50,000.

Assuming a 20% federal capital gains tax rate based on Sarah’s income level, if Sarah sold the stock she would realize appreciation of \$450,000 and owe an estimated \$90,000 in federal capital gains taxes ( $\$450,000 \times 20\% = \$90,000$ ).

In this scenario, as shown in Option 1, after paying the federal capital gains taxes, Sarah’s estimated net cash available for charitable giving is \$410,000.

Now let’s review Sarah’s benefits with gifting her stock directly to a donor-advised fund or other public charity, as shown in Option 2. In this scenario, Sarah may be able to eliminate capital gains taxes (\$90,000) while potentially taking a current year income tax deduction for the fair market value of her stock (\$500,000), assuming she itemizes her deductions.



This hypothetical example is only for illustrative purposes. The example does not take into account any state or local taxes or the Medicare net investment income surtax. The tax savings shown is the tax deduction, multiplied by the donor’s income tax rate (37% in this example), minus the long-term capital gains taxes paid.

## Additional considerations

In addition to the potential tax benefits described above, the following considerations may apply.

### 1. Donate long-term held shares with high appreciation.

In order to realize maximum tax savings from the charitable donation of IPO stock shares, the incentive stock options for the shares must have been held more than one year from exercise date and two years from grant date. In addition, the shares should have appreciated in value. Shares not meeting these criteria do not carry the same tax advantages.

### 2. Avoid prearranged sales.

You should not enter into any arrangement that would legally compel the donor-advised fund or other public charity to dispose of the stock upon receipt. This kind of “prearranged sale” could reduce or eliminate the tax benefits of making your donation. Upon receipt of the stock, the donor-advised fund or other public charity controls the asset. For most donor-advised funds and other public charities, the general policy is to promptly sell appreciated securities, but a charity may reserve the right to sell at any time.

### 3. Be mindful of lock-up restrictions.

The decision of whether and how charitable gifts of IPO stock may be made during a lock-up period is determined by the issuer’s counsel. In cases where gifts can be made during a lock-up period, any restrictions that materially affect the value of the shares or prevent the shares from being freely traded may require a qualified appraisal to substantiate the fair market value, and such restrictions may lead to valuation discounts.

You should work closely with the donor-advised fund or other public charity when you transfer locked-up stock. Your stock donation is irrevocable and you cannot dictate the timing of the sale. Schwab Charitable’s ordinary policy is to immediately liquidate stock, but exceptions to this rule may apply. Please consult with your corporate counsel and the donor-advised fund or other public charity when donating IPO stock.

### 4. Consider whether Rule 144 legend and affiliate restrictions apply.

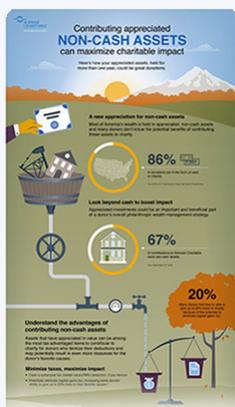
If your stock is restricted by legend or is “control” stock owned by an affiliate of the issuer (i.e., you are an officer, director, or 10% shareholder), then your company’s general counsel must give you permission to transfer the stock to charity. As a general rule, restricted stock must be sold in accordance with Rule 144 resale restrictions.\*

Contributions of long-term held restricted stock to a public charity, including a donor-advised fund, may be deductible at fair market value as of the date of contribution, but valuation discounts may apply if restrictions are not lifted prior to gifting. A qualified appraisal may be required to substantiate the fair market value.

To learn more about gifts of restricted stock, [click here](#).

### 5. Annual limits apply to charitable deductions.

Overall deductions for donations to donor-advised funds are generally limited to 50% of your adjusted gross income (AGI). The limit increases to 60% of AGI for cash gifts, while the limit on donating appreciated non-cash assets held more than one year is 30% of AGI. The IRS permits a carryover for five tax years, should your charitable deduction exceed AGI limits in a given tax year.



## Interested in learning more?

The Charitable Strategies Group at Schwab Charitable is a team of professionals with specialized knowledge about non-cash asset contributions to charities. Our team stands ready to support you and your advisors, from initial consultation through asset evaluation, receipt, processing, and sale. We strive to provide unbiased guidance and frequent communication at every step of the process to help you and your advisors make informed decisions and stay aware of the time required for your transaction.

For more information about the advantages of contributing appreciated non-cash assets, you can review our [infographic](#), read an [overview article](#), or call us at 800-746-6216.

If you would like to learn more about Schwab Charitable donor-advised fund accounts, [click here](#).

\* Rule 144 is a regulation enforced by the U.S. Securities and Exchange Commission. The regulation provides an exemption that allows the public resale of restricted, unregistered, and control securities if a number of conditions are met. This includes how long the securities are held, the way in which the securities are sold, and the amount of securities that can be sold at a certain time.



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