



## Contributing IPO Stock to Charity

by Barbara Benware, Vice President – Investment Oversight and Risk

With the market for initial public offerings (IPOs) heating up, we have received a number of inquiries about donating IPO stock to a public charity, including to a Schwab Charitable™ donor-advised fund account. The following is a summary of the tax benefits of making such a contribution of IPO stock and some timing and process considerations. Individual circumstances vary and those interested in donating IPO stock to charity should consult with a tax advisor about their particular situation.

### Charitable Tax Planning Opportunity for Executives, Affiliates & Early Investors in Companies Going Public: Donate IPO Shares to Charity

Those considering current year charitable contributions who are also facing long-term capital gains tax on the sale of highly appreciated shares after an initial public offering may realize a much more favorable income tax result and charitable impact by making a timely donation of a portion of their IPO shares (either during or after the lock-up period) directly to charity. If a donor sells the stock first and then donates the cash proceeds to charity, the donor may be subject to capital gains taxes on the proceeds from the sale of the stock. But if a donor contributes the IPO shares directly to charity or to a donor-advised fund, the donor can usually eliminate capital gains tax and deduct, if he or she itemizes, the fair market value of the donation.

#### Hypothetical Example *(assuming initial investment made more than a year before IPO shares sold or donated)*

	Sell stock and donate net proceeds (cash) to charity	Donate stock to Schwab Charitable donor-advised fund account
<b>Current fair market value of securities</b>	1,000 shares @\$55 per share* = \$55,000	1,000 shares @\$55 per share* = \$55,000
<b>Federal long-term capital gains tax paid<sup>†</sup> (20%)</b> Assumes a cost basis of \$5,000 and long-term capital gains of \$50,000	\$10,000	\$ -
<b>Charitable contribution/deduction<sup>‡</sup></b>	\$45,000	\$55,000
<b>Value of charitable deduction<sup>§</sup></b> Assumes donor is in the 37% federal income tax bracket	\$16,650	\$20,350

**With a direct donation to charity or a donor-advised fund account, the donor's federal income taxes are reduced by \$3,700 and the charity receives \$10,000 more.**

\* This value is hypothetical, for illustrative purposes only, and does not account for possible valuation discounts due to restrictions on the shares, if any. It should not be used in connection with considering whether to buy, sell, or hold appreciated securities.

† Assumes cost basis of \$5,000, that the investment has been held for more than a year and that all realized gains are subject to the 20% federal long-term capital gains tax rate. Does not take into account any state or local taxes, or potential Medicare net investment income surtax.

‡ Assumes no restrictions on the sale of the contributed shares. If there are restrictions, the value of the deduction, for those who itemize, will be reduced. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity, and the donor's AGI. Charitable contributions to public charities (including donor-advised funds) of capital gain property held for more than one year are usually deductible at fair market values. Deductions for capital gain property held for one year or less are usually limited to cost basis.

§ Assumes donor is subject to the 37% federal tax. Does not take into account state or local taxes. Certain federal income tax deductions, including the charitable contribution, are available only to taxpayers who itemize deductions, for taxpayers with adjusted gross income (AGI) above certain levels. In addition, deductions for charitable contributions may be limited based on the type of property donated, the type of charity, and the donor's AGI.

## Additional Considerations When Donating IPO Shares

### 1. How long have the shares been held?

In order to realize the significant tax savings from the charitable donation of IPO stock:

- The initial investment(s) must have been made more than a year before the shares are donated and the shares should have appreciated in value from the time of the initial investment(s). Donating stock held for less than a year or depreciated stock does not carry the same tax advantages.
- Donors must transfer shares directly to charity or a donor-advised fund and SHOULD NOT SELL THE STOCK. Donors should not enter into any arrangement that would legally require the recipient charity to dispose of the stock upon receipt. This kind of “pre-arranged sale” could reduce or eliminate the tax benefits to the donor of making the donation.

### 2. Are the shares subject to a lock-up period?

This is commonly the case and the decision of whether and how charitable gifts of shares 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, the fair market value will be the market value at the time of contribution less a discount based on the holding period specified in the lock-up agreement (or

any other restriction on sale). For shares subject to any restrictions that materially affect the value of the shares to the donor or prevent the shares from being freely traded, the donor must engage a qualified appraiser to determine the discounted fair market value.

### 3. What happens when the lock-up expires?

Upon receipt of the stock, the charity or donor-advised fund controls the sale process. Schwab Charitable’s policy is generally to sell contributed securities promptly, but it reserves the right to sell at any time.

### 4. Is the donor considered an affiliate of the issuing company?

If the donor is a 10% shareholder, a director, or otherwise deemed to have “insider status” (i.e., in possession of influential or non-public information), it does not impede the gift, but does require extra steps and may take additional time. Consult with a Schwab Charitable complex asset specialist to discuss the specifics.

### 5. Are there other potential tax issues inherent in the gift?

Every individual tax situation is unique. Before proceeding, it is best to review the details of your specific situation with a qualified tax advisor to make sure such a gift is structured and timed appropriately.

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## Learn More

For more information about the advantages of contributing IPO stock to charity and for a detailed consultation about your specific situation, please call us at [800-746-6216](tel:800-746-6216) or visit us at [www.schwabcharitable.org](http://www.schwabcharitable.org).

Individual circumstances may vary, and those interested in donating IPO stock to charity should consult with a tax advisor about their particular situation.

A donor’s ability to claim itemized deductions, for those who itemize, is subject to a variety of limitations depending on the donor’s specific tax situation. Consult your tax advisor for more information.

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, Schwab Charitable recommends consultation with a qualified tax advisor, CPA, Financial Planner or Investment Manager.

Schwab Charitable is the name used for the combined programs and services of Schwab Charitable Fund™, an independent nonprofit organization. The Schwab Charitable Fund has entered into service agreements with certain affiliates of The Charles Schwab Corporation.