



What every generous business owner should know

by Michael King

Would you like to give more but don't have the cash flow? What if your most valuable asset – your business – could be used to dramatically increase (even double) your giving? This is the secret of business-interest giving. Explore this case study to discover how it works, and see if this strategy could be right for you.

Many Christian business owners have a heart for charitable giving. As men and women who view themselves as stewards, rather than owners, they see the assets they manage as God's and believe profits should serve a higher purpose.

The good news is that, with the right strategy, owners are transforming millions of dollars from their business into vital support for ministry work ... and their personal lives, families, employees, and communities have been changed in the process.

What's the secret?

1. Most business owners are not aware they can give a portion of their business to charity.
2. Giving an interest in a business allows income from the gifted portion to flow directly to charity, which often results in more charitable giving and lower income tax for the giver.
3. Giving an interest in a business may enable owners to double their current cash giving by giving from the tax savings produced by the business-interest gift to charity.

Successful business owners throughout the country are discovering the unique ways in which they can use their companies as engines for generosity. Let me explain it using an example, a real-life couple we'll call the Keplers.

Bill and Katrina Kepler own and operate a water damage restoration company. The company produced about \$1 million of net profit last year and was recently valued at \$10 million. The business has grown by double digits from its inception 12 years ago, and it's

expected that the company's performance will continue for the foreseeable future.

The Keplers are a generous family who give approximately \$100,000 annually to various charities. In addition to supporting their local church, they are actively involved in supporting missions helping their city's homeless community, and they have a deep passion for combating human rights abuses globally – especially human trafficking. They also give very generously of their time.

Considering their healthy annual income, Bill and Katrina live a relatively modest lifestyle. They live exclusively on the \$200,000 salary that Bill receives from the company. Because of the high growth prospects the business has enjoyed from its inception, Bill has always reinvested most of his profits in the business. However, reinvestment has limited the Keplers' capacity for charitable giving. They would love to give more, but they simply lack the available cash resources with which to do so. Or so they thought.

An engine that accelerates generosity

Then, a savvy advisor shared a strategy with the Keplers that allowed them to increase their

annual giving dramatically, even doubling their current cash giving, by using their most valuable financial asset – their business.

The Keplers' advisor explained how they could gift a minority interest in their business and take a charitable deduction for the fair market value of this gift. Of the total allowable deduction, they may deduct up to 30 percent of their income for the non-cash gift portion of their giving. Since the Keplers made their gift, new tax rules now slightly reduce the deduction, but not by a significant amount.

So, the Keplers' advisor encouraged them to make a charitable gift of an interest in their business equal to \$300,000, which is 30 percent of their \$1 million in income (including wages and income passed through to them from

their business). Based on the value of their business, this represented a gift of a three-percent interest (\$10 million divided by \$300,000).

Why make a gift to benefit your Giving Fund (donor-advised fund)

The gift was made to NCF for two primary reasons:

Because NCF is classified as a public charity under the tax rules, Bill and Katrina receive a full fair market value deduction for their gift. Had they made a gift to a private foundation, their deduction would have been limited to their income tax basis in the business – which is quite low compared to the value of the business.

And NCF provides a mechanism allowing the Keplers to make a single charitable gift that ultimately supports numerous



charities. As cash flows from the business to NCF – derived either from annual distributions of income from the business or proceeds from an eventual sale of business interest – it is distributed to the Keplers' Giving Fund. Bill and Katrina can then recommend grants of cash from their fund to any number of charities.

By making a gift of business interests worth \$300,000, the Keplers went from giving 10 percent to 40 percent of their income. With estimated tax savings of \$111,000 resulting from this gift ($\$300,000 \times 37$ percent), the Keplers now have an additional 11 percent of retained income they could use to make an additional gift to charity.

Since the Keplers still had the opportunity to give and deduct an additional 10 percent of income, their advisor suggested they take a portion of the income tax savings that they had just realized from the business-interest gift and make an additional cash gift to maximize their charitable giving.

So, Bill and Katrina made an additional cash gift of \$100,000 from the \$111,000 of tax savings. The additional cash gift also provided a charitable deduction, saving \$37,000 more in taxes



and taking their total giving to the maximum deductible amount for that tax year.

The giving strategy described above had no adverse impact on the capitalization and cash flow of their business. In addition, although Bill and Katrina indeed gave away valuable assets to charity, their personal cash flow actually increased due to the tax savings they realized. After the Keplers gave an additional \$100,000 to charity, they still had \$48,000 ($\$11,000 + \$37,000$) of additional cash flow from making these gifts.

Combining a vacation and mission

The Keplers used some of this \$48,000 to fund a two-week combined vacation and mission trip to Africa that had an unexpected, transformational

impact on their lives. In addition to experiencing the beautiful sights and sounds of Africa, including an unforgettable safari, they had a unique opportunity to meet their “adopted” daughter, nine-year-old Christina, whom they’ve supported for years through a child sponsorship program with an international charity that combats child poverty. The Keplers’ trip marked the first time in more than 12 years that Bill had taken a full two-week reprieve from the demands of running a successful business.

Bill and Katrina are planning to continue this pattern of giving by combining cash and non-cash gifts to maximize their giving and fully use the opportunity to give every year. In fact, since their business has been growing at a rate higher than the three

percent business interest they are now planning to give annually, they are actually giving their business interest from only a portion of the growth each year.

Coming alongside charities to transform lives

The Keplers' greatest joy comes from witnessing the lives that are touched and transformed by the charities whose mission they share. The business-interest giving strategy they've implemented has enabled them to more than double their support for their charitable

endeavors. Not only does charity receive a portion of the income from their business, but their current cash giving has correspondingly doubled as a result of giving the tax savings generated from their business-interest gift.

The Keplers are also excited about the fact that at some point in the future, when their business is sold or liquidated, very significant additional assets will be available to support the charities they care about. This is a result they had never imagined possible until a creative advisor shared with

them how their business could be a powerful engine, both now and into the future, for greater impact and generosity.

About the author

As a charitable wealth strategist and attorney at NCF, Michael King works with generous families and their professional advisors, sharing concepts and strategies that allow them to maximize their giving.

Harness the power of your influence

Since 1982, the National Christian Foundation has helped thousands of business owners give more to the charities they love and see lives transformed in ways they never thought possible. Don't miss the best opportunity you may ever have to fund the big dreams God has given you.



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