



## Q&A From CARES S-Corp Webinar, September 2020

<u>Question</u>	<u>Answer</u>
<p>1. Do you have a gift minimum for real estate?</p>	<p>Usually \$250K+ can work, but our average is likely closer to \$750-1 million so it usually takes a bit of a larger gift to make the economics and process work well. We also use a special CGA contract that resets the payment to net settlement proceeds.</p>
<p>2. In the schematic, does it matter if the distribution goes to any DAF or any charity when it leaves the Dechomai Charitable DAF (trust-form)? Or must the DAF be held with you?</p>	<p>We don't hold any liquid funds. It can go to another DAF or any other charity directly. It can also go to multiple charities as grants from us as well. In some cases, the donor wants to spread the grants around of course so that can work pretty well.</p>
<p>3. Where is the \$4.6 million for charitable giving. I understand \$2m would be in a DAF but the rest of it should still be personally owned, right?</p>	<p>In our example with the \$5M worth of S-corp stock donated to a trust-form DAF, the \$4.6M would be available for charitable giving. The \$2M was the net tax benefit to the donor.</p>
<p>4. Is there an expectation or possibility the Cares act will be extended into 2021?</p>	<p>I never thought you would attend a tax webinar unless it is part of punishment! No clue on extension - based on Congress, President and extension of pandemic or some other unforeseen disaster.</p>
<p>5. Could a gift go to an endowment or agency reserve fund at a Community Foundation?</p>	<p>Yes - kind of like QCD exceptions as well. Designated and other CF funds will all qualify.</p>
<p>6. So could Dechomai DAF trust grant to multiple charities to satisfy a donor who wanted to give to more than one charity?</p>	<p>Generally yes. We can usually do up to 4-6 grants to different charities. If the donor is looking to do more than that, they may be better served having us grant to another DAF with a more robust DAF investment and grantmaking platform.</p>

<p>7. Could you please clarify again why all of this only applies to DAFs in trust form, rather than DAFs in corporate form? Does it just have to do with the tax rates of trust vs. corps?</p>	<p>It does have to do with the tax rates, but importantly (and we probably should have mentioned this) corporations are only allowed a 10% deduction for charitable giving. That has increased to 25% under CARES for 2020 only I believe.</p>
<p>8. I realize UBIT would not be realized in the last scenario if it was given to a nonprofit (NOT DAF) but would it have the same treatment for other community foundation fund types? Scholarships, designated, unrestricted, etc.</p>	<p>Interesting question. I'd tend to think those sorts of funds would fall into the "not DAF" category...the law is very specific in calling out DAFs as not eligible. Again, hard to say for sure without solid guidance from the IRS on the hastily-written law.</p>
<p>9. In the Joe Smith scenario Dechomai transfers cash to the Smith DAF. Does Dechomai get the 60%AGI deduction for cash gift even though it is to a DAF?</p>	<p>Yes - the 60% deduction is for all cash contributions (as of 1/1/18).</p>
<p>10. Do you help charities with mechanics of s-corps being used to fund a CGA that is not located at Dechomai but elsewhere?</p>	<p>Yes, Charitable Solutions can provide that consulting service.</p>
<p>11. What if the percentages in your case study were reversed, with 80% of the shares being donated and 20% were sold by the donor? Will the donor still be taxed as with an S-Corp a distribution because "substantially all" of the assets were donated?</p>	<p>Great question. The "substantially all" gain recognition situation is fairly uncommon. My understanding is that it would apply when there is an entity donor. That means either the S-corp is giving 80% of its assets (in this example), or perhaps an LLC that owned the S-corp gives 80% of the S-corp stock. In that circumstance, I do think that would create a taxable gain. On the other hand, since these are pass-through entities, the shareholders should realize the benefit of the deduction.</p>
<p>12. For clarification - 60% AGI cash deduction is okay to a DAF but 100% AGI cash deduction cannot be made to a DAF, correct?</p>	<p>Correct.</p>

<p>13. Only a few charities that are established as a Trust (most are corporations) also issue CGAs. One of those is the Dechomai Asset Trust. I think it is important to help donors understand that an S corporation stock to fund a CGA is only practical with a few charities (that have the expertise to do this).</p>	<p>Phil is exactly right - the vast majority of charities are in corporate form.</p>
<p>14. Will DAT entertain accepting an s-corp asset from another DAF who has reached their holding limit?</p>	<p>Yes, although we'd need to do our due diligence.</p>
<p>15. When talking about the 5 year rules - are we talking about the time the property is held by the charity or the time that the donor held it in advance of the donation?</p>	<p>David, Hope that you are well! It is at the time the donor makes the donation.</p>
<p>16. Who is qualified to appraise S-corp stock?</p>	<p>Any CPA firm with a business valuation team or a dedicated business valuation company can do this. The S-corp nature of the entity is not typically material to their work - they usually focus on the operations and what is creating the stock value.</p>
<p>17. Thanks, Bryan. I'm wondering if you have a one-pager which contrasts/compars the S-Corp donation to trust-form route vs. donor selling outright and donating post taxation - maybe a few nice graphs, etc.? Something that charities can use with their suspected S-Corp business owners?</p>	<p>We do have some materials on this including an Excel spreadsheet with built in macro formulas as well.</p>

18. Do any valuation discounts come into play?

They definitely can and frequently do. However, there are some ways of reducing these. One is to wait until after the sale to engage the qualified appraiser to have a market price setting transaction (different appraisers view that differently). Or, we often use Put Options to reduce the potential marketability discount. And then we also use an agreement where all shareholders agree to sell the entity which can then reduce potential Control Discounts. So we generally see 5-10% combined discount all things being equal which they never are of course.

19. My understanding on the carry forward issue is:

"The CARES Act doesn't impact the application of prior year carryforwards, which cannot be used toward the augmented 100% AGI limit.

Essentially, you run all of your standard 170(b)(1) analysis and calculations (all of your other carry-forwards and 2020 giving that isn't a "qualified contribution" under the CARES Act), you subtract that from your AGI, and the remainder is the amount of your CARES Act qualified contributions that you can deduct under 170(a). Any excess is carried forward under CARES for up to five years, subject to the standard AGI limitations (170(b)(1)(G)(ii))." If you find out differently, please let me know.

Thank you! This makes sense...we hadn't seen or received any definitive guidance on this question, but it's logical (albeit unfortunate) that the IRS would not allow that "bonus" to be applied to other years.