

Thad Becker's Story — Donor Advised Fund



Thad Becker has poured his entire being into building Becker's Specialty Bakery, a world-renowned maker of sugar cake, Moravian cookies, and other delectable treats. Thad started the business in his home kitchen, and now Becker's literally ships baked goods around the world. Thad's business started in his hometown and has remained there through its growth. As one would expect, Thad is well thought of throughout the community. Thad is 70 years old, and the wear and tear of running a business has him

thinking of what's next for his life. Thad has been approached multiple times in the past five years by potential buyers wanting him to sell his business. Thad and Becker's Bakery have been equally charitable through the years by granting to several nonprofits in the community. Thad realizes that when he sells his business, he will owe significant taxes and he would like to limit the sting of the tax bill while continuing to support charities in his town. Becker's Specialty Bakery is an S-corporation. Thad owns 75% of the business with the remaining 25% divided among his employees within the organization.

Objectives

- Limit income tax due at the sale of Becker's Specialty Bakery.
- Create a philanthropic vehicle for Thad to use in retirement.
- Protect as much as possible the impact of the business sale on both employees and the town.

Current Situation

- The value of Becker's Specialty Bakery is estimated to be \$5 million, making Thad's portion worth \$3.75 million – Thad hires an independent, qualified appraiser who confirms the value.
- Thad can claim an income tax charitable deduction (up to 30% of adjusted gross income) in the tax year of the gift – unused deductions can be carried forward for five additional years.
- There is no binding agreement in place to sell the business.

Possible Solution—Thad hears about the Moravian Ministries Foundation and reaches out for ideas:

- Thad further learns about The Moravian Donor Advised Fund sponsored by the Moravian Ministries Foundation in America (MMFA).

How it Works

- Thad establishes a gift account and transfers \$2.75 million of S-Corp stock to open the account.
- Thad signs an additional gift agreement with MMFA ensuring that there will be sufficient amounts of cash to cover any holding costs during the Foundation's period of ownership of Becker's Specialty Bakery.
- MMFA works with the other holders and they sell the business to a third-party buyer who commits to keep the company local and continue current operations.
- Thad receives \$1 million cash for the shares he owned outright, and after some travel he plans to stay in his community and live comfortably. He will use his charitable income tax deduction to offset the taxes on the gain from his business sale.
- MMFA has to pay unrelated business income tax at corporate income tax rates on the income earned from the donation date to the time of the sale and on the net gain of the sale (based on the shares owned by the donor advised fund). This nets just over \$2 million in proceeds for Thad's gift account.
- Thad now has a charitable account where he has retained the privilege to recommend grants over time to the charities of his choosing.



Results

- Thad can now enjoy the rest of his life without the worry of a business and enjoy the time in his community further exploring philanthropy.

Most importantly, Thad can rest easy knowing the outcome wasn't a huge black eye on his business or his impact on the community in which he lives. He can also broaden his philanthropic reach by funding new charities and/or by further exploring ways to increase his funding to previously supported causes like his Moravian church. Thad will get to see the impact of his philanthropy.

Does a donor advised fund make sense for you? Please contact Chris Spaugh at 888-722-7923 or email us at daf@mmfa.info to learn more.

This example is hypothetical and for educational use only. The situations, tax rates, or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary.