Community Foundation for Greater Atlanta

Private equity interests for lasting community impact

Are you looking for a solution for your private equity interests that have incurred significant value over time and may face taxable distributions?

Did you know that donating those interests could increase your philanthropy and endow positive change for Atlanta while simultaneously minimizing your tax obligations?

Although most donors opt to make charitable gifts using cash or liquid assets such as publicly traded stock, gifts of private equity interests are a creative way to make large contributions with significant benefits for our community. For now. Forever.

Principals of private equity firms face steep obstacles to receiving full income tax charitable deduction for donations of fund interests, and the Community Foundation can help. Handled properly, private equity fund interests can play an important role in achieving maximum income tax benefits for you as the principal and your family.

By creating a donor-advised fund at the Community Foundation for Greater Atlanta, the principal can:

- Receive an income tax charitable deduction at the highest level available for fund interests
- Have the deduction based on the fair market value (FMV) of the fund interest (rather than the principal's cost basis) at the time of the gift

For philanthropically-minded investors, these interests that have appreciated in value can be among the most tax-advantaged items to contribute to charity. You can enjoy a current year tax deduction and potentially eliminate capital gains tax liability on the distribution, transfer or sale of the shares while supporting charities to receive the most money possible. And, you create a legacy for the Atlanta community.

By donating highly appreciated private equity fund interests, investors can usually take a full, fair market value income tax deduction—as determined by a qualified appraisal—for the donation while also potentially eliminating tax liability on fund distributions.

Depending on the size and complexity of the private equity fund, it may be possible to donate a limited partnership interest in the fund directly to a donor-advised fund, yielding maximum benefits to charity.

These donations must usually be approved by the private equity fund's general partner and accepted by the donor-advised fund provider.

Private Equity Interests

Considerations include:

- Private equity fund General Partners typically oversee transferability of fund shares, and limited partners who wish to donate a portion of their investment to charity can work with the General Partner to achieve this goal. In some cases, General Partners have established charitable giving programs to enable their investors to achieve their philanthropic goals by permitting charitable transfers of partnership interests or distribution of portfolio company stock prior to a sale. Such programs require the active involvement of the fund's general partner, may be complex, and take time to establish, so initiating discussions well in advance of a liquidity event is critical. Let us help you navigate through these complexities with our expert knowledge and skills.
- The donor-advised fund provider will generally not assume liabilities associated with these investments. Individuals should plan to contribute sufficient liquid assets to cover granting as well as private equity fund open commitments, unrelated business income tax (UBIT) or other liabilities.
- The donor's fair market value tax deduction will be determined by a qualified appraisal of the contributed interest.
- In order to realize the full value of the investment, the donor-advised fund provider must normally be able to hold the private equity interests until the scheduled termination date or liquidity event. Sales of these interests in the secondary marketplace prior to this may be subject to steep discounts.
- If the fund carries debt, the principal/donor may be liable for taxes if the contribution is treated as a bargain sale.

The most important factor in effectively donating private equity assets is getting a qualified appraisal of the fair market value of the asset as of the date it is donated. For donors who are not sure how to best execute this, the Community Foundation for Greater Atlanta is here to help.

How it works:

Bob is a managing director at a private equity firm (Bob's firm), and serves as the General Partner (GP) for several private equity funds. He owns interests in a GP LLC and a co-invest LLC that is invested in X Company (a portfolio investment company) that is also partially owned by one of Bob's firm's PE fund (PE Fund V). He also owns Limited Partnership interests in PE Fund V.

Bob's firm is preparing to exit X Company. Bob has the potential to gift: the GP interest (and transfer his carried interest), the LP interest in PE Fund V (which allows distributions to flow to the DAF), co-invest LLC interest (allows distributions to flow to the DAF) and shares in X Company (if stock can be transferred to the managing directors in advance of a possible liquidity event).

Bob (a PE principal)
$100,000 in exchange for LP interests in PE Fund V

5 years later
LP interest is worth $20M

Wants to give 5%
($1M of his LP interest to a donor-advised fund)

Tax benefit of the charitable deduction =
$400K*
**assuming a 40% tax rate; 40% of $1 million FMV*

About us

Since 1951, the Community Foundation for Greater Atlanta has been a trusted philanthropic resource for our 23-county metro Atlanta region. We lead and inspire philanthropy to increase the vitality of our region and the well-being of all residents.

Interested in gifting Private Equity Interests?

The Community Foundation for Greater Atlanta is here to help. For more information, please visit cfgreateratlanta.org or call 404.688.5525 and ask to speak with a member of our philanthropy team.