Avoiding Capital Gains Taxes

Private equity firms seem to have a voracious appetite for purchasing small businesses to grow and then sell them for a profit. As a business owner, I get many inquiries from these firms who are interested in acquiring my company and I have given a lot of thought to what I would do to mitigate taxes in the event my firm was ever purchased.

I frequently get calls from business owners who are about to sell their company or who have already sold their company and are facing enormous capital gains tax bills. Many business owners who sell their companies have built it up from scratch and have very little taxable basis and if they sell their business for $10 million or $50 million almost all the proceeds are subject to capital gains taxes. Currently that is 23.8%.

What I would do, is donate 10% of my company to a charitable foundation prior to the sale to avoid capital gains taxes on that portion of the sale. I realize not everyone practices philanthropy the same way. However, there is another charitable strategy I would implement that can help sellers of appreciated stock or real estate avoid capital gains taxes.

If a seller creates a charitable remainder trust and donates shares of their company to the trust prior to the sale, they will avoid capital gains taxes on those shares. What's the catch? The seller must leave at least 10% of the assets of the trust to charity. The seller can determine how much they want the trust to distribute to them each year and for how long.

The seller will not only avoid capital gains taxes, but they will also get an ordinary income tax deduction for the present value of the future gift. The more they give to charity the greater the tax deduction will be. However even for those who are not looking to leave money to charity, when a 10% charitable donation gets you a 23.8% tax savings, it may be time to start consider being more generous.

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