

# The Generous Business

A Guide for Incorporating Giving at Work



“The earth is the Lord’s and everything in it, the world, and all who live in it; for he founded it upon the seas and established it upon the waters.”

— Psalm 24:1-2

In a world measured by power and profits, there is one enterprise that is redefining the meaning of success—welcome to the era of the Generous Business. Led by CEOs who prefer the title of “steward,” these are companies where all assets under management belong to God. And the results are amazing. Millions of dollars of wealth are being transformed into vital support for ministry work, and the lives of owners, their families, and employees, are being changed in the process.

The emerging trend of the Generous Business is the subject of this resource guide from National Christian Foundation. To help owners incorporate giving at work, the guide begins with the story of one of the companies who are leading the way in giving, and it includes their practical suggestions on why and how to become a Generous Business. Also included are case studies for three of the latest giving strategies that are being used by the country’s top experts to maximize the ability of business owners to give. And finally, some of the country’s most generous businessmen share their firsthand insight on what it means to leverage their lives and their companies for Christ.

# Table of Contents

<b>BUILDING A BRIDGE THROUGH GIVING</b> <i>The Story of Bridgeway Capital Management</i>	2
<b>GOD IS MY SHAREHOLDER</b> <i>A New Trend in Innovative Giving Through the Charitable Shareholder Strategy</i>	8
<b>THINK BEFORE YOU SELL</b> <i>Maximizing Giving Before a Major Liquidity Event</i>	13
<b>SMOOTH TRANSITIONS</b> <i>The Role of Charitable Planning in Business Succession Planning</i>	17
<b>THANKING GOD IN FRANKLIN (TGIF)</b> <i>by Phil Drake, Drake Enterprises</i>	20
<b>PROFIT WITH A PURPOSE</b> <i>by Alan Barnhart, Barnhart Crane &amp; Rigging</i>	23
<b>TRANSFERRING OWNERSHIP TO GOD: THE LIFE OF STANLEY TAM</b> <i>by Todd Harper, Generous Giving</i>	26
<b>ABOUT OUR FATHER’S BUSINESS</b> <i>by David H. Wills, National Christian Foundation</i>	27
.....	
<b>APPENDIX</b>	
COMPARISON CHART: TAX IMPLICATIONS FOR CHARITABLE GIFTS	29
GLOSSARY	30

# Building a Bridge Through Giving

## The Story of Bridgeway Capital Management

*Based in Houston, TX, Bridgeway Capital Management, Inc. is a fast-growing registered investment firm with \$3 billion in assets under management. Founded in 1993 by John Montgomery, Bridgeway currently manages 12 mutual funds for Bridgeway Funds and provides subadvisory and separate account management services for other institutions and foundations. Since its inception in 1993, Bridgeway has differentiated itself in the market place through its commitment to values of integrity and financial stewardship. Other distinguishing aspects of Bridgeway's culture include servant leadership, donating half the company's profits to nonprofit endeavors, involving all partners (full-time staff) in this philanthropic process and in transformative community and world change, and capping the highest paid partner's compensation at seven times that of the lowest compensated partner.*

---

Many companies today have developed programs for charitable giving for a variety of reasons from marketing to philanthropy. At Bridgeway Capital Management in Houston, TX, a unique brand of corporate giving is emerging. Mike Mulcahy, Partner and Director, explains, "Bridgeway is committed to taking the idea of stewardship in business to a whole new level. We feel called to be a bridge between our business success and the enormous needs around the world. As a result, we are building a business model we call a Generous Business."

Mulcahy quickly learned how generous his job would require him to be when he showed up for his first day of work on December 2, 2002. John Montgomery, the founder and CEO of Bridgeway, announced that he had just thirteen days to determine the charitable recipients of a large sum of money. Mulcahy notes that he was confused, since he had just started at the company. But he quickly learned from the other partners that Bridgeway had set aside some of its profits for him to give away! It became clear to him that Bridgeway, as a company, placed a very high priority on its charitable giving program and likewise encouraged its employees to be generous as well. Initially, Mulcahy found those decisions hard to make, due especially to the substantial size of the sums that were being granted. He notes, "Giving had not been part of my routine beyond church. To give a sum of money that challenged me to look beyond what I'd been giving was quite an exercise. That was exciting."

"Life is much more rich when the purpose at work is not just to pull a paycheck."

JAMES MCKISSICK, TRADER, BRIDGEWAY

This challenge to give is one of the hallmarks of a Generous Business which Mulcahy defines as a

“company committed to challenging its owners, staff, and families to lead transformative change through the joy of giving.” He goes on to say, “While the program often starts with a generous owner, the vision for generous giving goes well beyond the owner and culminates with staff members and their families passionately giving from their resources as they seek to transform the world.”

A Generous Business uses the talents of its people and the fruits of their efforts (that is, profits) to make a positive difference in the world through generosity. To achieve this, a Generous Business creates and shares a culture of stewardship where staff members are actively engaged in the giving culture.

Mulcahy says, “At Bridgeway, we’ve discovered that as people in and around our company experience the joy of giving, they are transformed and so is our business. Since we have seen the overwhelming positive impact of generosity on Bridgeway, we try to encourage other business leaders to step out and make a bold commitment toward creating their own Generous Business.”

## WHY DO THIS?

While it may seem counter-productive to promote giving as a company goal, the leaders at Bridgeway say they have experienced many real benefits over the years from operating a Generous Business. Here are some of the primary reasons that have compelled Bridgeway to embrace the generous lifestyle:

### **They Feel a Call to Stewardship.**

Bridgeway Capital Management’s leaders see themselves as servant leaders. For example, Bridgeway’s founder, John Montgomery, says, “Each day I dedicate all that I am and all that I have to God as part of my spiritual practice. That includes my ownership of the company.”

### **It Creates Meaningful Work.**

The emphasis on stewardship shifts the definition of value from just “dollar profits” to “world impact.” The business is not just about the bottomline or making the owners richer, it’s about taking care of customers while changing the world. James McKissick, one of Bridgeway’s traders for nine years explains, “It is important for me to feel like I am a part of something that is bigger than me. When I know that the time and talents that I am using during the business day will produce profits that will be used to help others in my community and throughout the world, that gets me excited. I want to be where God is doing things. Life is much more rich when the purpose at work is not just to pull a paycheck.”

Michele Camp, in securities operations and trading at Bridgeway for four years, shares a similar sentiment. She says, “Most people view their job as a way to earn money, pay the bills, support a family. Working at Bridgeway changes that mindset because you are a part of something that is bigger than just one person. It’s not just a job. Bridgeway creates a duty, a calling, an obligation to give back to those less fortunate. It’s an amazing feeling to be able to work in a place that not only challenges me professionally, but challenges me personally—reminding me that it’s not all about me. It allows me to do something that I’m passionate about (trading) while also living according to my beliefs and my purpose in life.”

### **They Have Increased Their Ability to Attract and Retain Quality People.**

A Generous Business attracts and retains people who have personal values beyond salaries and self. Mulcahy says, “We’ve created a staff of people we really enjoy, employees with character and passion, who work together for a bigger and more meaningful purpose. And, if entire families get involved, the company becomes a more important and valuable part of each of their lives.”

### **It Builds Staff Skills.**

By participating in the community and with charities, their staff has developed stronger leadership, teamwork, and networking skills as they have helped address various social and economic situations together.

### **It Encourages Cost Management.**

People think about spending differently as they see how spending impacts their ability to give to causes they support. Every dollar really does impact a program.

### **Nothing Motivates Growth Like a Generous Business.**

As their employees' passion for giving grows, they have been willing to help the business grow, so they can have an even greater impact. Dick Cancelmo, portfolio manager and head of trading, has been with the company for 10 years. He says, "I have come to the conclusion that if you can convert your work life to your life's work, the positive impact of your efforts will be dramatic, long-lived, and a whole lot of fun."

"If you can convert your work life to your life's work, the positive impact of your efforts will be dramatic..."

DICK CANCELMO, PORTFOLIO MANAGER AND HEAD OF TRADING, BRIDGEWAY

### **It Inspires Loyalty.**

Their customers and business partners have become stronger supporters as they learn about Bridgeway's purpose and integrity in giving. Cancelmo adds, "There is absolutely no way that any of us could individually have such a great impact without Bridgeway. The giving literally touches everything we do as a company, giving us better partners [staff], better

business partners, and better focus on the bottom-line. Warren Buffet says that he practically whistles and skips to work. I don't quite do that but it's pretty darn close, you could pay me twice as much to go down the street and I wouldn't even think about it!"

### **They Have Been Able to Impact Their Community and the World.**

Successful giving programs have a positive and measurable impact in their local community, business community, and the world. Rebecca Hove, who joined Bridgeway in 2007 as part of their foundation team, explains the far-reaching effects of the company's servant attitude. She noted, "Fewer things enrich relationships as deeply as service. In fact, service is so important that many people willingly pay a high price for it. So, imagine the ROI—for a company, the community, and for employees—when you are serving together and serving each other to make a tangible difference. The transformation I've seen happen as a result of Bridgeway's service commitment is humbling, inspiring, and enduring."

## **WHAT ARE SOME PROGRAMS TO CONSIDER WHEN GETTING STARTED?**

While Mulcahy says you should consider traditional giving programs such as community service days, matching programs, and a company foundation, real progress toward a Generous Business comes with outside-the-box programs that fit each company's needs and personality created by company leaders and staff. Some examples that Bridgeway has used through the years include:

- **Commitment to Corporate Annual Giving and to Staff Participation in the Gift Decisions** – As part of its corporate bylaws, Bridgeway has committed to giving 50% of after-tax profits to charitable causes. In addition, staff members are asked, as part of their job duties, to participate in

## Top 10 Tips for Building a Generous Business

As more and more business owners are influenced by the generosity message, there is a growing need for practical insight on how to create a Generous Business. While Bridgeway is still learning, their leaders have created a list of “Top 10 Tips” to help other business owners get started:

- 1. Make Sure the Business Is Strong and Respected.**  
You can't have a successful giving program without profits. Taking care of your customers and providing great products and service is imperative if you want your customers to support you in this endeavor.
- 2. Lead by Example.**  
Make a personal commitment of your own time, talents, and money. Don't ask your staff to do something you aren't willing to do yourself.
- 3. Include Stewardship in Your Mission and Vision Statement.**  
Make your goals more powerful and meaningful by going beyond just being number one in your market.
- 4. Set Giving and Relationship Goals.**  
You may want your initial goal to be ambitious and fun (e.g. percentage of profits/EBITDA, total dollars, involvement, alliances built, volunteer hours). We use business metrics, so why not use giving metrics? Measure results, not just dollars.
- 5. Empower Your Staff and Their Families.**  
A Generous Business starts with the owner and leadership team but cannot be accomplished without broad staff involvement. True transformation happens as your whole staff and their families become owners and shapers of the vision.
- 6. Be Creative. Take Risks.**  
Get creative when it comes to giving programs, and add them progressively as the giving culture grows and skills are developed. Support new ventures and passionate people.
- 7. Develop Guidelines for Focused Areas of Giving.**  
Be careful about where money goes because your reputation goes with it. Draw boundaries that you and your staff can live with.
- 8. Recognize That It's Not About the Money.**  
It's about building relationships with and changing the hearts of your staff, your change partners, and the lives of people you are reaching.
- 9. Learn from Mistakes.**  
Don't be afraid to experiment and change. Find what works for you. Use mistakes in grants or programs as opportunities to learn.
- 10. Celebrate Giving Successes.**  
Develop programs to recognize the impact of your company and staff. Bring out the joy for everyone!

the decision making regarding the recipients of those corporate gifts. That participation can consist of making individual designations of certain portions of those gifts to their chosen charities, within company guidelines, sitting on various committees around common interests or affinities, and reviewing and approving grant requests as a team.

- **Encouraging Staff Service Participation** – Staff members and their families are encouraged to directly participate in extended hands-on service trips and projects. Bridgeway covers 50% of the participation costs incurred by the family and provides one week of time off with pay per year for participation in such service projects.
- **Donor-Advised Funds** – Bridgeway utilizes donor-advised funds to ease the back office burden and provide greater empowerment to their staff members and their families.
- **Salary Caps** – The company maintains a 7 to 1 compensation cap to keep costs lower (and giving higher) and to reinforce a culture that is more about stewardship and less about salaries.

“Eighty percent of the world’s evangelical wealth is in North America-and the total represents way more than enough to fund the fulfillment of the Great Commission.”<sup>1</sup>

In conclusion, Founder and CEO John Montgomery says, “When I started Bridgeway, I thought I had a dozen good ideas around starting a business. Some didn’t pan out whatsoever. A few were very successful. But donating half of our profits as a mission-driven organization was the one idea that was ten times more powerful than I understood at the time. If other businesses could see what we see now, most would be giving away a lot more and investing passionately with their time and talents.” ■

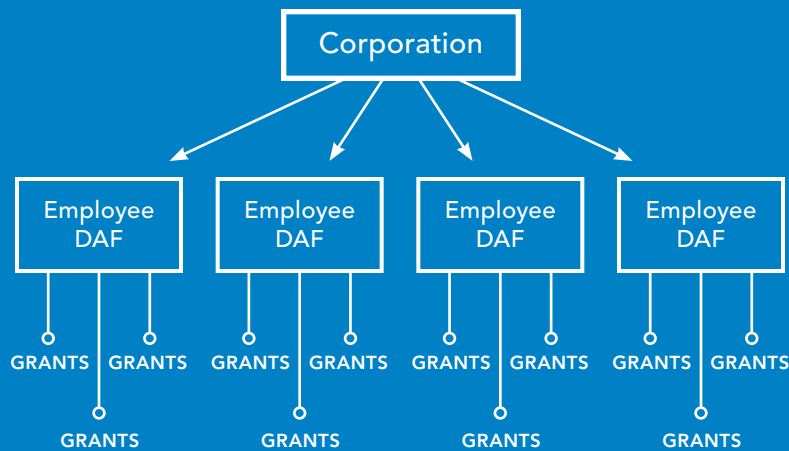
---

<sup>1</sup> Ron Blue with Jodie Berndt, *Generous Living: Finding Contentment through Giving* (Grand Rapids, Mich.: Zondervan Publishing House, 1997), 201.Trading



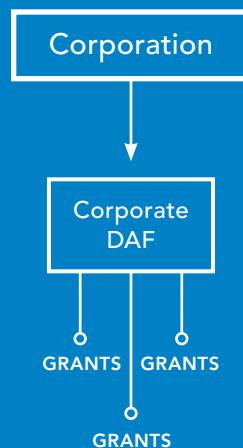
## Employee DAFs vs Corporate DAFs

### Employee DAFs (Donor-Advised Funds)



- Corporation offers a matching program to encourage giving at employee level
- Employee contributes funds to 501(c)(3) DAF provider and receives a charitable deduction
- Corporation matches charitable gift by predetermined ratio by making a charitable donation to individual DAFs
- Employee recommends gifts to charities from individual DAF

### Corporate DAFs (Donor-Advised Funds)



- Corporate Board approves a resolution to establish the charitable program
- Corporation funds the corporate DAF and receives income tax deduction
- Committee operates under guidelines, selects grantees and makes charitable grant recommendations
- DAF completes grants
- Corporation celebrates grants to charity

# God Is My Shareholder

## A New Trend in Innovative Giving Through the Charitable Shareholder Strategy

Many Christian business owners champion the cause of generosity by giving lavishly of their personal time, talent, and treasure as well as encouraging their employees to do the same. But one of their biggest gold mines for giving often remains untapped simply because they are not aware of its potential. Now there is a new trend in charitable giving that is changing all that. Cutting-edge gift planners are using a technique known as the “charitable shareholder” strategy to help entrepreneurs give a portion of their ownership interests in closely-held businesses to charity. There is also great spiritual impact as owners experience the joy of using their most valuable resource to further the Kingdom more than they ever thought possible.

The results have been dramatic. In most cases, owners using the charitable shareholder strategy have been able to double or triple their giving, increase their cash flow, reduce their income taxes, and even decrease their estate taxes.

“I never would have been able to tithe the first million dollars I ever made if I had not tithed my first salary, which was \$1.50 per week.”

JOHN D. ROCKEFELLER, SR. (1839-1937), AMERICAN INDUSTRIALIST AND PHILANTHROPIST

### THREE DISTINCT TAX BENEFITS

What makes this strategy so effective? Gifts of ownership interests in closely-held businesses are an ideal asset for charitable giving because they provide three distinct tax benefits. And even as they give a piece of their business away, owners maintain majority voting rights as they are gifting a small, or non-voting interest in their company. Let’s take a look at how it works.

#### GIFT OF BUSINESS INTEREST:

##### Immediate Maximum Charitable Income Tax Deduction

One of the serious dilemmas that small business owners often face is that their tax bill on reportable income reduces their available cash for charitable giving. For example, when business earnings in an S-Corporation are reinvested directly into the business rather than being distributed to the owners, those earnings still pass through to the owners for tax purposes, producing “phantom income.” In other words, it is taxable income without cash distributed to help pay the tax.

The owners end up tapping other sources of cash to pay the taxes on phantom income, including sources of cash that otherwise might be used to benefit charities. While reinvesting earnings may increase the value of the business and the owner’s net worth, it also results in less capacity for charitable giving.

But you can turn some of your tax dollars into charitable dollars by gifting a portion of your non-cash interest in the business. The key is to take full advantage of the charitable income tax deduction allowed by law.

You probably know that you can deduct up to 50% of your adjusted gross income (AGI) for charitable contributions. But what you may not know is that a significant portion of your deductible charitable contributions (30% of AGI) can be made in the form of non-cash gifts. In other words, your deductible charitable gifts (totaling 50% of AGI) can be comprised of both non-cash gifts totaling 30% of AGI and cash gifts totaling 20% of AGI. This rule can be leveraged to generate tremendous giving.

Let's look at one scenario. A business owner transfers shares of his business stock with a value of \$300,000 (\$300,000 = 30% of his AGI of \$1,000,000) to make a charitable gift that is tax-deductible against his AGI on the current year's 1040 tax form. The gift transaction involves no cash; it's simply a stock transfer. But as a result, his taxable income is reduced by \$300,000, which saves him \$120,000 in federal and state income taxes (if he is in the combined 40% tax bracket). At this point, he has already increased his charitable giving for the year from his cash tithe of \$100,000 (10% of AGI) to \$400,000 (40% of AGI).

	BEFORE	AFTER
Adjusted Gross Income (AGI)	\$1,000,000	\$1,000,000
Reinvestment in the Business	(\$400,000)	(\$400,000)
Charitable Gifts	(\$100,000) cash	(\$200,000) cash (\$300,000) stock
Income Tax (40% fed/state)	(\$360,000)	(\$200,000)
Family's Net Spendable Income	\$140,000	\$200,000

In this scenario, the business owner decreased his taxes by \$160,000 and increased his charitable giving by \$400,000.

## Introducing Donor-Advised Funds

To facilitate these types of gifts, the charitable shareholder strategy often utilizes a charitable giving vehicle known as a donor-advised fund (DAF). A donor-advised fund is an irrevocable gift agreement in which a donor transfers assets to a sponsoring charity in exchange for the right to advise the charity regarding grant payments to other charities. The donor receives a full income tax deduction for gifts to a DAF at the time of the donation, and retains the right to recommend future grants to 501(c)(3) charities.

In the typical charitable shareholder scenario, an owner gifts stock in his business to his donor-advised fund, and that stock is then sold by the sponsoring charity, with the proceeds being placed back into the fund for granting. In other scenarios, the stock can be held in the fund to permit future growth of the business to benefit charities later on.

Donor-advised funds are currently the fastest growing charitable vehicle in the U.S. DAFs are sponsored by numerous nonprofit organizations including all the top brokerage firms and many local community foundations across the country. For Christian business owners, National Christian Foundation and their network of local Christian community foundations offer The NCF Giving Fund, the nation's largest donor-advised fund focused on the unique needs of Christian givers.

If he uses the income tax savings of \$120,000 to make an additional \$100,000 gift to charity, he will receive another tax deduction equal to 10% of his AGI. This last gift will lower his tax bill by an additional \$40,000 (40% of \$100,000). Fortunately, the \$300,000 worth of donated S-Corporation shares represent just over 2% of the value of his \$12 million business and about 1% to 2% of his total net worth. Therefore, he still holds the majority stock position in the company.

### About Ongoing Company Management

When considering this strategy, some business owners are hesitant to give up stock in their family business. But in the above example, for instance, the \$300,000 worth of shares donated represents just over 2% of the value of his \$12 million business, about 1% to 2% of his total net worth. Therefore, while he is indeed giving up value that he owned, he still can maintain sufficient value in the business to maintain management control.

In many cases, a gift of 30% AGI generally represents no more than a 2% to 4% interest in the business. Often, the value of the business increases at a rate higher than 10% in many years. Therefore, if an owner continues to make similar non-cash gifts each year, he would end up giving a portion of the annual appreciation to charity as his net worth continues to increase. Even if there is no growth in the business or estate, the shareholder gifts may never catch up to the amount of the charitable gifts planned at death.

### OPERATION OF THE BUSINESS INTEREST GIFT: Reduction of Income Tax Liability on Operating Income

As stated before, the taxation of income generated by an S-Corp passes through the business and is taxable directly to the individual shareholders. In this case, the charity is now a shareholder and must report

“You hear a lot of strange things about tithing. Some say it is a church tax, and they expect me to pay it and that is the end of it. Others say that when I give God one-tenth of my income, He blesses the nine-tenths that is left to the extent that the nine-tenths now goes as far as the whole thing used to go. This isn’t really true, is it? Suppose a farmer had 100 bushels of corn in the barn and he decides to plant 10 bushels in the ground. What multiplies? Is it the 90 bushels that he has left in the barn? Oh, no. All of us ‘farmers’ know it is the 10 bushels you put in the ground that multiplies. Similarly, it is the 10 percent you give to God that multiplies.”

STANLEY TAM (1915-), AMERICAN BUSINESSMAN AND  
PHILANTHROPIST

its pro-rata share of taxable income regardless of whether or not distributions are made from the S-Corp.

Beginning in 1997, Congress allowed charities to become S-Corp shareholders without compromising the corporation’s S-election. However, since the 1950’s, Congress has also required charities to pay tax on all of the charities’ income that is earned from business activities not related to the charity’s charitable purpose. This is called “unrelated business taxable income” (UBTI). Because the S-corp’s business activity

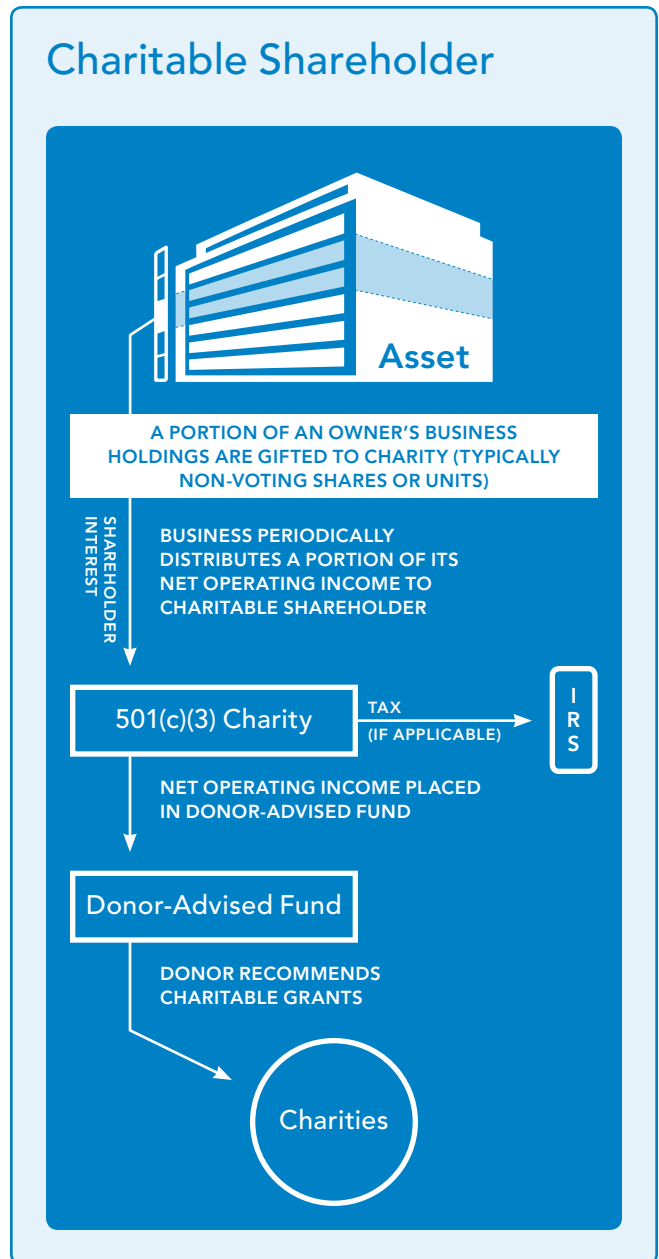
is not related to the charity's charitable purpose, any income allocated from a S-Corp to the charity is considered UBTI and is subject to tax owed by the charity. The good news is that giving shares of S-Corp stock owned at least one year will create an income tax deduction equal to 100% of the value of those shares. However, the charity will be required to pay income taxes on its share of S-Corp income as UBTI.

**SALE OF THE DONATED STOCK:  
Reduction of Capital Gains Tax**

The charitable shareholder strategy can also be used to great effect if it is implemented as part of a long-term sale transition plan. One of the most negative aspects facing the seller of a privately-held business is the hefty capital gains tax, typically 20% or more (combined federal and state tax) on a substantial portion of the business value. When an owner decides to sell his business, the capital gain taxes on the portion of the business he has gifted can be dramatically reduced (or even completely avoided) using the same charitable shareholder structure described above, allowing for greater charitable giving. Proceeds from the sale of the business are placed back in the DAF for advising distributions to the seller's favorite ministries. While this sale is typically to an outside third party, the charitable shareholder's shares could also be redeemed by the corporation, sold to key employees or an ESOP plan or even to family members in a commercially reasonable arrangement.

**Technical Issues and Considerations**

As with any tax strategy, there are a number of technical issues and other considerations to take into account. First of all, shareholder agreements must be reviewed to navigate any restrictions on transfers. And there are a number of issues relating to the charitable deduction. A qualified appraisal is required to substantiate the giver's deduction. There



may be a deduction reduction for "hot assets" such as appreciated inventory, accounts receivable, and accelerated depreciation recapture.

Another consideration is choosing the appropriate type of charitable entity to facilitate gifts of

closely-held business stock. In addition to DAFs, a private foundation can be used. However, gifts to a private foundation are only deductible at the giver's tax basis in the stock—not the stock's fair market

value as with a donor-advised fund. The charitable income tax deduction for these types of gifts to private foundations are also limited to 20% of the giver's AGI. ■

## From Banking Stockholder to Charitable Shareholder: A Look at the Strategy in Action

Businessman Jess Correll and his older brother, Vince, decided at an early age that they wanted to be the "richest men in Kentucky." They bought their first bank when they were in their mid-twenties, the first of many prosperous bank and real estate deals. During this period, Jess struggled with the temptations of wealth and greed, and eventually lost his first marriage as a result of his obsession with success.

Over the years, Jess noticed something in Vince that he didn't have... a spirit of selfless generosity. Vince loved to give and freely shared on many occasions with those in need. Vince's giving heart had a tremendous impact on his little brother. When Vince died of brain cancer at the age of 38, Jess decided to follow his brother's godly example of giving.

Soon after, Jess married his second wife, Angela, and they made a firm decision to always put faith and family ahead of business. Jess continued to grow his banking business, but he kept his perspective on wealth in check with a new way of giving. Using the charitable shareholder strategy, he discovered how to give away significant amounts of his private bank stock. Soon, his bank's

senior management team joined him in this type of giving as well.

Jess and Angela now give away several times what they spend a year. He has learned that truly generous giving stems from a believer's faith. Jess says, "When you give money away, you depend on God to replenish it so that you can be even more generous in the future."

Jess' father once told him that the antidote to greed is giving money away recklessly. It took Jess and Angela a while to fully understand and appreciate this concept. But once they did, the relentless pull of wealth subsided. Today, Jess says, "We can attest to the fact that the freedom and joy we have experienced through giving far surpasses the temporary pleasures of self-gratification."

"Someone in the crowd said to Him, 'Teacher, tell my brother to divide the inheritance with me.' Jesus replied, 'Man, who appointed me a judge or an arbitrator between you?' Then He said to them, 'Watch out! Be on your guard against all kinds of greed; a man's life does not consist in the abundance of his possessions.'" – Luke 12:13-15, NIV

# Think Before You Sell

## Maximizing Giving Before a Major Liquidity Event

One decision every successful business owner will eventually face is the prospect of selling the company they've worked so hard to establish. While the opportunity to reap the value of their investment is exciting, selling a business is often a complex process with many practical, emotional, and financial implications.

For the Christian business owner, there is an additional element of spiritual impact. Of all the chances an entrepreneur might have to affect the Kingdom and his or her family, the sale of a profitable business can be one of the greatest. For many, this is the opportunity of a lifetime and how much can be gained or lost for eternity boils down to this one final business sale transaction. And like all successful business transactions, timing is everything.

### MAXIMIZING KINGDOM GAIN

Most Christian business owners have ministry in mind when they are contemplating what they will do with the proceeds from the sale of their business; they plan to give a portion of it away once they have liquidated. But while this approach is laudable for its intent, often those owners could maximize their gift by giving the business away prior to sale.

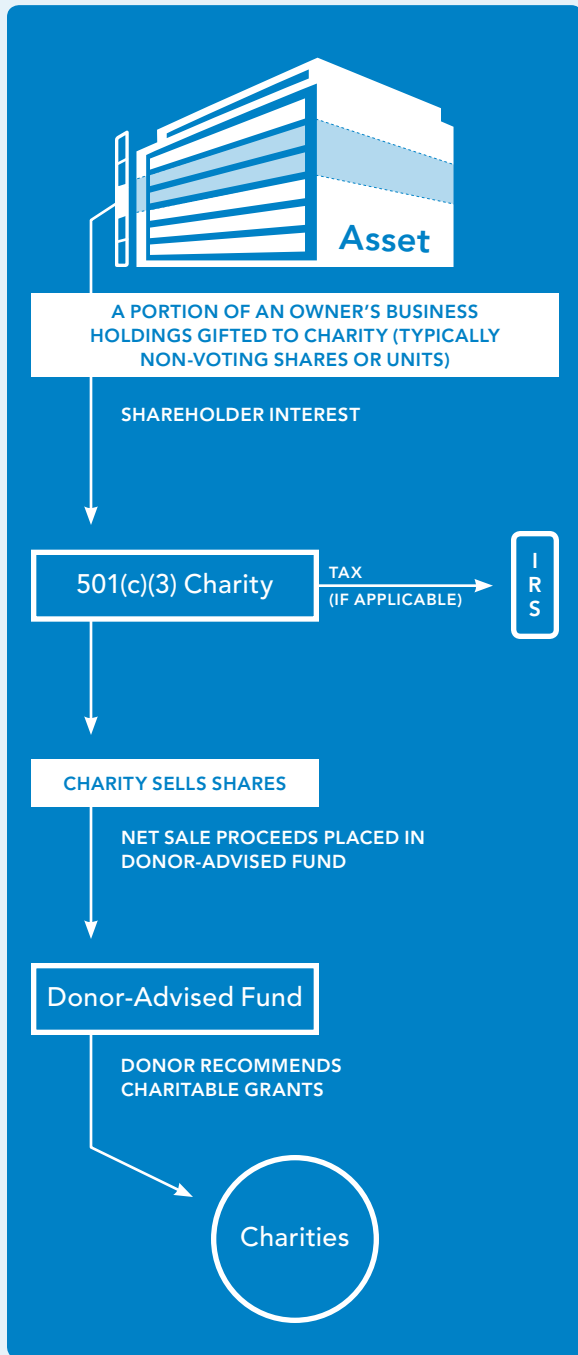
When the business units or shares are contributed to a public charity, they carry with them the capital appreciation that has occurred during the years the

If you spend 30 years building your business and you pay 25% capital gains tax when you sell it, that is over seven years of growth gone in the time it takes to write a check.

business has been held by the donor. Therefore, by giving a portion of the donor's units or shares prior to negotiating a sale, a donor can maximize her gift-giving ability and therefore maximize the Kingdom impact of her gift. While every donor needs to consult with her tax and financial advisors prior to making a donation, since each situation is a little bit different, let's take a look at an example that illustrates the difference that giving before the sale can often make.

A business owner plans to sell her business for \$1 million and donate \$200,000 from the sale to her church and other ministries. Her cost basis in the business is only \$100,000, which would mean that the sale would result in a capital gain of \$900,000. (The gain is equal to the value of the business assets in excess of the cost basis). With a combined federal and state tax rate of 20%, she will owe \$180,000 in capital gains taxes. This includes the \$40,000 in

## Giving Before the Sale



capital gains tax she will owe on the \$200,000 of sale proceeds she plans to give to her church. However, if before the sale she donates a portion of the business stock representing the percentage of sale proceeds she intended to give away after the sale, the capital gains tax of \$40,000 is completely avoided. And she still receives the full fair market value deduction of \$200,000 for the value of her stock gift. Thus, she was able to give \$40,000 more to her church and ministry work at no additional cost to her family, thereby, turning capital gains into great gains for the Kingdom.

### IN THE INTEREST OF GIVING

No doubt it is a much more effective strategy to make gift arrangements before the sale is agreed upon. This goes for not only the amount an owner may want to give away as an outright gift, but also an amount she may plan to give later. For example, a couple may wish to retain proceeds received from a business sale for the rest of their lives in order to live off the income from those assets until they give them to charity at death. Through a split-interest gift, the tax code provides a strategy that typically works to accomplish this objective. These two concepts – outright gifts and split-interest gifts – are very important when contemplating the sale of a business. The following case study includes these considerations.

### A CHRISTIAN COUPLE SAVES \$1 MILLION

John and Sally's C-Corp business, a manufacturer of fittings for industrial uses, has expanded impressively over the last twenty years. The couple has personally worked hard to develop the business and cultivate many important relationships with employees, customers and vendors. They have reached a point in life where they would like to transition into some other activities, many of which are charitable in nature.



Their business is worth about \$10M, and they have suitors. With a cost basis in their C-Corp stock of just \$1M, a sale of their closely-held business would require payment of state and federal tax on the \$9M gain. This tax would amount to about \$1.8M, based on their combined federal and state tax rate.

Following the anticipated sale, the couple wanted to invest in a charitable enterprise that has been on their hearts for some time. They have enjoyed helping young children in the foster care system by providing opportunities for camping experiences in a Christian environment. John and Sally have seen that they can minister to the kids in a more meaningful way through a camping-related experience which offers direct opportunities to share the love of Christ. Beyond this charitable objective, the couple recognizes that they will need the remaining assets to serve as a retirement fund.

John was intrigued with the advantages of a donor-advised fund (DAF). After first considering the idea of a private foundation, he had concluded, for a variety of reasons, that the simplicity and greater tax advantage of a DAF would fit his family's objectives.

A key factor in this decision was that if John gave his stock to a private foundation, his deduction would be equal to his tax basis in the gifted shares. However, if he gave his stock to a DAF, then his deduction would be equal to the fair market value of the gifted shares.

Operating a private foundation would require administrative duties similar to those he was seeking to relinquish in the sale of the business. The start-up and ongoing costs associated with creating a private foundation were substantial. And John learned the somewhat ironic fact that private foundations are more open to public scrutiny than DAFs because private foundations are legally required to publish a listing of all their financial activity. Gifts from DAFs, on the other hand, can be made privately.

John and Sally began to closely examine the merits of making a gift of stock in their business before selling it. Their advisor made some calculations that revealed this strategy would enable them to give at least 12% more charitably. The tax savings could be given to charity by giving away a portion of their estate sooner rather than later.

This was an exciting development for the couple because they were exhilarated by the thought of leveraging their God-given, hard-earned assets. Executing this plan, they donated \$2 million in value of shares (out of the \$10 million business) into a DAF. Had they done this after the sale instead of before, they would have paid approximately \$360,000 more in capital gains tax and less money would have gone to charity.

	GIFT AFTER SALE	GIFT BEFORE SALE
Fair Market Value of Business	\$10,000,000	\$10,000,000
Gift to Charity	\$1,640,000	\$2,000,000
Capital Gains Tax (20%)	\$1,800,000	\$1,440,000
Net to John and Sally	\$6,560,000	\$6,560,000

John and Sally were challenged by their advisors to think about the remaining assets and how they might be utilized. Initially they were inclined to simply invest and live off the proceeds while they considered retirement options.

Their two children were well provided for already, and John and Sally had some concerns as to whether it would be wise to bequeath to them the entire amount (or more, assuming their investments continued to grow). Their children were responsible, but they now had second thoughts about whether such a large inheritance would be a help or a hindrance to the children's spiritual and character development and resulting commitment to serving God.

There was also the issue of estate taxes that could evaporate a significant portion of their life's work. After prayerfully considering these issues, John and Sally came to the decision to limit the estate gift for their children to a smaller amount that would fall under the estate tax exemption amount.

This decision meant that several million dollars or more of what was left would also go to charity at the end of both of their lives – whether that was in the next month or in 30 years.

In counseling with their financial and tax advisor, they were advised to consider creating a Charitable Remainder Trust (CRT). A CRT is a tax-exempt charitable trust into which donors give an asset—in this case stock in John and Sally's business. The CRT may pay them a predetermined percentage of the CRT assets each year for the remainder of their lives, and after their deaths, the remaining CRT assets are distributed to their DAF or other named charity. This is a "split-interest" type of gift in which part of the gift is a charitable contribution and part of the gift is a retained life income for the givers. Because the CRT is a tax-exempt trust, the CRT does not pay capital gains taxes when the stock is sold.

John and Sally decided to place several million dollars worth of business stock into a CRT and received a life income payment projected to exceed what they currently spent to maintain their lifestyle. And, they still had several million dollars on hand following the sale of their business for outright personal use. Ultimately earmarked for their children, it would continue to work for them in the meantime.

The end result of this planning was that the \$1.8 million John and Sally initially anticipated paying to the government on the sale of their business was reduced to less than one-quarter of that amount. Some of this reduction was due to capital gain tax savings because of business shares transferred pre-sale to their DAF and to their CRT. More of the tax savings

resulted from income tax deductions generated by these charitable gifts. With thoughtful planning, John and Sally directed more than \$1 million to the charities they'd rather support.

John and Sally exemplify just one of many families successfully negotiating the ultimate business sale decision for the greater benefit of the Kingdom. As they and others step into a new phase of stewardship, they are readily embracing the timeless wisdom of Sir Winston Churchill, who said, "You make a living by what you get, but you make a life by what you give." ■

## The High Price of Success

Often one of the more disappointing aspects of selling a business is coming to grips with a hefty tax bill of 20% or more on a substantial portion of the business value. Why is it so high? Because a business sale generally leads to a significant capital gains tax event. The gain is equal to the value of the business assets in excess of the cost basis. In most cases, the cost basis will be near zero because of strong growth and the fact that the business was not capitalized with a significant amount of money or property. Additionally, many years of depreciation may have considerably reduced the business basis. The result is the possibility of a high level of capital gain. Some of this gain may even be taxed at a higher rate if it is the result of depreciation. The federal tax on this gain is normally 15%, but there may be an additional state tax ranging from 4% to 10%, although a few states do not have income or capital gains tax.

# Smooth Transitions

## The Role of Charitable Planning in Business Succession Planning

Even with the constant demands of running a company, many Christian business owners still make time to keep their Kingdom commitments top priority. But planning how their business and accompanying estate will be distributed after they are gone is often at the bottom of their to-do list.

This lack of planning comes at a great cost. Entrepreneurs who have spent years building a business with a desire to bless the Kingdom may find that their assets must be sold to pay taxes rather than being deployed to support charitable causes.

But it doesn't have to be like this. The estate tax is almost a "voluntary" tax because there are many ways you can give more, and minimize taxes...if you plan ahead. Let's look at a scenario that includes most of the common issues that business owners face including: 1) estate taxes, 2) inheritance, and 3) passing on ownership and control.

### THE WELL-PLANNED SUCCESSION: A Look at One Owner's Solution

Frank had an estate valued at \$15 million. Having focused much of his time on building a successful family business, he and his wife, Mary, had not given much thought to how their assets would be distributed at death. Although they wanted to formulate a prudent estate plan, deciding how to proceed was no simple matter.

Frank and Mary had four primary concerns:

1. They had a strong desire to leave a legacy of gifts to the Christian ministries and other organizations they had faithfully supported throughout their lives.
2. With regard to inheritance, they wanted their four children to benefit from their estate, but were also concerned about their children receiving too much, too quickly.
3. They did not want their successful family business to be shut down or sold to others upon their deaths, but preferred that the business continue to thrive under the family's management.
4. There was the issue of potential estate taxes. Planning for the estate tax is a challenge because the future of the tax is uncertain due to frequent changes by Congress. While Frank and Mary were more than willing to pay required taxes, they did not want their lack of tax planning to needlessly reduce their ability to make charitable gifts from their estate.

Eventually, Frank and Mary met with their financial advisor who introduced them to an innovative planning technique that would help them pass assets to their children, make generous gifts to their favorite charities, avoid shutting down the family business, and wisely plan for their estate tax obligations.

To begin, their advisor asked Frank and Mary to think about an amount they would like to pass on to each of their children. He suggested they imagine their estate in cash, and in a bowl in the middle of the table. Then he asked: “How do you want to share this estate? Would you give it all to your children? Would you give it all to charity? Or, would you want a combination of these options?”

After prayerful consideration, Frank and Mary reached the conclusion that it would not be wise to give each of their children one-fourth of the estate, which would be almost \$4 million apiece. So they decided to divide the portion of their estate that could pass estate tax free to their children. For purposes of this example, we will assume a \$3.5 million individual exemption from federal estate taxes, or \$7 million total exemption for Frank and Mary. So, in this case, at Frank and Mary’s deaths, their children would receive \$7 million, or \$1.75 million each.

But there was a related hurdle affecting the ownership and management oversight of their family business, which had grown to a value of just over \$8 million. Even though Frank and Mary didn’t want to immediately pass down all of their assets to their children, they hoped the kids could assume management, and eventually full ownership, over the family business.

Combining the couple’s strong charitable intentions with a flexible planning tool known as the family limited partnership, their advisor proposed a way to avoid shutting down the family business while maximizing their charitable giving.

### A Partnership Made in Heaven

A family limited partnership (FLP) is simply a traditional limited partnership in which the partners are family members. All limited partnerships are run by one or more general partners; the limited partners typically have no vote or management control of the business.

Thus, a general partner might own only 1% of the business and yet manage and control 100% of the assets.

When a limited partnership interest is transferred to an individual or entity, the value of the limited partnership interest is discounted—that is, it is deemed to be worth less than the value of the underlying asset. For example, if a person received an asset worth \$1,000 but was given limited control over the asset (having limited power to sell, invest, or assign the asset), its practical value would be something less than \$1,000. The amount of the discount varies from case to case. In this example, we will assume that Frank and Mary’s appraiser utilized a 30% discount rate.

To address Frank and Mary’s charitable and estate planning objectives, they established an FLP and placed the majority of their business interest and other investment assets into it during their lifetimes. Then they made provisions through a separate trust for 1% of the Frank and Mary Family Limited Partnership (F&M FLP)—representing the general partner interest and all of the voting control – to pass outside their estates to their children, which might include a lifetime transfer. This transfer would be included within Frank and Mary’s \$7 million exemption from gift and estate taxes.

Their estate plans also directed that the remaining limited partnership interest of 99% be gifted after their lifetimes to a donor-advised fund. The value of the underlying assets transferred in this manner amounted to \$8 million (discounted by 30% to \$5.6 million for estate tax valuation purposes), representing the balance of Frank and Mary’s estate after the \$7 million in estate gifts to the children. Frank and Mary’s estate received a charitable contribution receipt (potentially up to \$5.6 million - \$8 million less the 30% lack of control discount).

Prior to this gift, the couple faced a potential estate tax liability on \$8 million of their estate. By making

the gift at death, their professional advisor had explained that they now had successfully eliminated that tax because the transfer to the donor-advised fund qualified as a completed charitable contribution, thus removing that asset from their estate. Of course, their professional advisor also scheduled future meetings with Frank and Mary to review their estate in light of growth of their assets, any changes in family circumstances, and changes in the laws.

This arrangement would also fulfill their desire for the children to ultimately enjoy full ownership of the family business. Upon Frank and Mary's deaths, the children would be in a position to buy back the F&M FLP interest owned by the sponsoring charity of the donor-advised fund. This is a great option for all concerned because the sponsoring charity is typically limited in selling the partnership interest to others due to transfer restrictions, and the children desired ownership of the underlying assets, particularly the family business.

Accordingly, the children approached the sponsoring charity to negotiate a purchase of the F&M FLP interest owned by that sponsoring charity and allocated to Frank and Mary's donor-advised fund. In exchange for a 15-year installment promissory note, Frank and Mary's children acquired the F&M FLP interest from the sponsoring charity, repaying the promissory note with the liquid assets they inherited, as well as the future cash flow produced and distributed to them from the family business.

Since the children had already inherited the general partner interest, the sponsoring charity negotiated a price that reflected the applicable discount, in addition to any intervening growth of the business, plus a risk premium for receiving a promissory note rather than an immediate cash payment. Frank and Mary's children agreed that a fair price for the F&M FLP interest was \$6 million (just above the \$5.6 million valuation), and completed the purchase.

Following this transaction, 100% of Frank and Mary's assets were back with the family. The charity received a stream of income from the sale of the F&M FLP that was placed in the donor-advised fund so the charity could, in turn, support the ministries the family had recommended.

### The Bottom-Line

Frank and Mary's plan resulted in a charitable contribution receipt of \$5.6 million for their estate; gifts of \$7 million to their children immediately upon their passing; the ability for their children to purchase the business after Frank and Mary's deaths; and, over time, \$6 million was granted by the sponsoring charity to the ministries they loved.

The couple thus transferred their entire \$15 million estate without paying any estate tax, and the children received generous inheritances. Because the payment arrangements to the sponsoring charity's donor-advised fund were structured over a period of years – and the children were given the opportunity to make recommendations concerning the ministries to be supported – they learned to be generous in a significant and meaningful way. And of course, the children acquired full management control and ownership of the family business.

### TO WHOM MUCH IS GIVEN

The value of even a small business owner's assets today is likely to put him in the top 1% of all wealth holders in the history of mankind. Compared to all of the people who have ever lived, entrepreneurs today stand in one of the most privileged positions of all time...with the power to change the world through a carefully planned business succession. ■

# Thanking God in Franklin (TGIF)

by Phil Drake, Drake Enterprises

*Phil Drake is Founder and Chairman of Drake Enterprises, a group of 18 businesses based in Western North Carolina. Drake Enterprises provide jobs to more than 450 individuals, making it one of the largest employers in the area. The company strives to demonstrate that biblical principles apply to every walk of life including business decisions. Phil is also the Chief Technical Advisor to Drake Software, the flagship company of Drake Enterprises. He began developing tax preparation software in 1977. In 1985, Drake Software was one of the first companies to electronically file tax returns. In 2004, the company won the IRS Modernized e-file Pioneer Award for its efforts. Drake Software also does work for Crown Financial Ministries, developing and maintaining "Crown Money Map Financial Software" and "Career Direct Online". Phil and Sharon, his wife of 36 years, live in Franklin, NC, near their children and grandchildren.*

---

As a native of Macon County, North Carolina, I grew up in a small Baptist church and became a Christian at the age of 17. My wife, Sharon, and I got married when we were very young and I started my career as a high school math teacher in Greenville, SC. My take-home pay was about \$425.00 a month. I also managed school buses so Sharon worked for me as a school bus driver as well. Then I also became a part-time minister of music and youth which paid as much as my teaching job. Overall, we were just managing to make ends meet in the early years.

In 1976, we moved back to Franklin, North Carolina, and I went to work for my dad who was a public accountant. For a year, I did tax returns for him manually, with a pencil and a calculator. I knew there had to be a better way so I convinced my father to buy a computer.

"I thought I was supposed to be responsible for my success, and only call on God when things went wrong."

In those days, the cost of a computer was \$22,000. My dad mortgaged a piece of property so we could buy one and he trusted me to program it. Shortly after, I developed an accounting program that solved many of the tasks I was working to accomplish by hand. And in 1977, when I was just 26 years old, I began to sell the program to other accountants. It was going so well that I told my wife, "I'm going to be a millionaire by the time I'm 30."

During this season of my life, I thought I was supposed to be responsible for my success, and only call on God when things went wrong. But I learned that isn't true. And I learned it the hard way through a business disaster. Instead of being a millionaire, the IRS forced our business into bankruptcy by the time I was 30.

Fortunately, in the midst of this disaster, I called on the wisdom I had gleaned from one of my greatest mentors, Larry Burkett. I had listened to Larry for years on the radio and later on in my life, I was blessed to meet Larry a number of times before he died. One of the things he taught was the importance of paying off your debts. He taught me that even though you may not be legally obligated to pay off a debt, you are morally obligated. So that's what Sharon and I decided to do. Although the court insisted we could only afford to pay 40 cents on the dollar, we paid everybody, every dime over the next six years. This was a life-changing experience for me. I came to the place where I finally said, "God, I've messed this up. From now on, I'll manage your business, and Lord, would you manage mine?"

So God began to manage our business as we turned it completely over to Him. Things did not get better overnight. But I did learn that there is one good thing about bankruptcy—you can't get any further in debt because a loan is impossible. I had to work 100-hour weeks because I couldn't afford to hire enough people, while Sharon stayed at home with our three young children.

But as time went on, God began to grow our business. For several years, we grew by one hundred percent a year. We have used those profits from our software company to start other Christian businesses. We have a Christian bookstore, a Christian radio station, and several other businesses. I love creating jobs. I call myself a serial entrepreneur while Sharon refers to me as a "terminal entrepreneur" because she thinks it will kill me.

## TGIF

One acronym that sums up how my experience has impacted our giving over the years is TGIF. When I was growing up, if I earned a dollar, my parents

instructed me to give a dime. So as a child, I learned to be a tither.

### Phil's TGIF of Generosity:

1. Tither
2. Giver
3. Investor
4. Family Influencer

It was much later in life that I became a giver. Surprisingly, God prepared Sharon and me to be givers while we were in bankruptcy. I'm not thankful for too many government programs, but I am thankful for WIC (Women, Infants and Children); otherwise known as food stamps. That's what fed my wife and kids while I was in bankruptcy.

Then one Sunday during this time, a friend stopped me after church and gave me \$500. It was hard to take it, but I took it because I had no choice. It was the hardest thing I've ever done. But it was a vital experience in our journey of generosity. God prepared our hearts through this season of need. And when we were able to meet the needs of others, we felt an obligation to return the mercy that had been shown to us. In this way, we became givers.

Third, we became investors. I love what Henry Blackaby says, "Find out where God's working and go get involved there." Instead of giving at our first inclination, we began to consider where God was working and decided to invest wisely there.

And finally, there is the principle of family giving. One of the things that I think we are called to do is draw our children to Christ. And part of this process is teaching them to be good stewards of what they have. When we had the ability to give over and

above our tithe, we started involving our kids in the decision of which ministries we were going to support as a family.

“I will keep on giving because the God I serve is the first and greatest giver. ”

When our kids were small, we used an exercise with pennies to help them choose ministries. We sat down at the table with a stack of pennies and several sheets of paper with different ministries listed on each sheet. Every penny represented \$1,000. We divided the pennies among our children and let them take turns putting a penny down on a piece of paper to represent giving to a ministry. It was a great way to get them involved and give them ownership in the ministries that were chosen. Today, all of our kids are Christians and although they don't do everything exactly like we would, they are all good stewards of their money. And I'm very thankful for that.

Tithing is how we started. Then, we turned into givers. Eventually, we invested our gifts wisely and then involved our family. And we've been able to do all of this better with the help of a donor-advised fund administered through National Christian Foundation.

We first utilized a donor-advised fund in 1994 when we had some non-cash assets that we needed to give away. Sometimes it's difficult to give away a non-cash asset if there are tax implications but the foundation helped us accomplish our complex gift.

Through our donor-advised fund, we were able to donate assets and then recommend where the grants should be distributed. The foundation distributes about thirty percent of its money every year to charities based on what their donors advise them to do. I have donated some of our company stock to the

fund, and our children have been able to buy it back. Then, with the money that they used to buy it back, I can recommend grants to ministry. So I received a tax deduction, my children got the opportunity to own part of my company (of course, they had to pay for it) and I had the ability to give away my children's money. That's exciting! Sharon and I have given away 40 percent of our company this way.

I will continue to give like this because I truly want to die with nothing. Most of us don't give more because we're afraid. We're afraid of disease, or how much it will cost to take care of us when we're old. Sometimes fear keeps us from giving what God has called us to give. But I will keep on giving because the God I serve is the first and greatest giver. He loved me before I was lovable, He managed my business when I was incompetent, and He blessed me with a great family that I didn't deserve. And most importantly, He gave me the greatest Savior. ■



# Profit With a Purpose

by Alan Barnhart, Barnhart Crane & Rigging

*Alan Barnhart is the CEO of Barnhart Crane and Rigging, one of the largest heavy lifting and heavy transport companies in the world. He and his brother, Eric, have grown the business into a \$250 million company with 21 offices across the U.S with an 80-acre headquarters in Memphis, TN. In 1986 they began a partnership and together started a company, benefitting from the reputation and value of the original family business with the blessing of their parents. The Barnhart brothers and their wives determined that they would use future profits from their work for the Kingdom. Immediately, the small family business began to grow. The first year they were able to invest \$50,000 in ministry. By 2000, the company's giving had risen to \$1 million per year. Since 2005, they have given away \$1 million a month through GROVE, their corporate giving program with more than \$50 million going to ministry work over the past five years. In 2007, they contributed 99% of their ownership interests into an irrevocable charitable trust, effectively giving away their multi-million dollar company to charity.*

---

It is really an honor to share the story of what God's done in my life. I came to Christ in high school through Young Life. I heard a message of God's love for me, and the wrath that I earned by rebelling against Him. I realized that I needed the forgiveness that came from Christ taking God's wrath in my place. So I came to Christ and soon after, went off to college.

Many people jettison their faith and morals during college, but it was just the opposite experience for me. I grew tremendously in my faith, and fell more and more in love with Christ. I was studying engineering with the intention of going back to work in our family business. But many of my peers were urging me to do something significant, like going into full-time ministry work. I prayed about it and I came to the realization that I could be a full-time follower of Jesus as an engineer and business owner. I didn't need to be collecting a check from a nonprofit to be truly following Christ. So I came back to Memphis and went to work for my dad in the family business.

An important thing happened during those first two years working for my dad. Because I was going into business, I studied every verse of scripture that I could read about money, wealth, giving, and the poor. There are thousands of verses that talk about money and I catalogued each one.

This scriptural study of money led me to two basic conclusions. The first is that God owns it all. We've been bought with a price, and everything we have is not our own. Everything that we have and everything that we are belongs to God. Our job is not to figure out what we want to do with our stuff, but what God wants us to do with His stuff. We are stewards and our time on earth is an infinitely small part of our existence. We're going to live forever, and we need to be good stewards now.

The second belief that became ingrained in me through the scripture was fear—a healthy fear of affluence and wealth. I saw so many warnings throughout the Bible about wealth. For example, Jesus explains that it is almost impossible for a rich man to go to heaven in Matthew 19:24: “I tell you the truth...it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God.” And in Matthew 13:7, Jesus tells a parable about the seed that fell among thorns, which grew up and choked the plants. Jesus explained that the plants were choked out by the cares of this world and the deceitfulness of wealth. I didn’t want that to happen to me. I wanted to be like the good soil in Matthew 13:8 that yielded 30, 60, or even 100-fold.

I was 24 years old when I read these scriptures and I realized an important fact. I did not want my business success to equal spiritual failure. So when my brother and I started the process of transitioning from being employees in the family business to co-owners of Barnhart Crane and Rigging, we decided to establish safeguards against too much worldly success in our lives. The first thing we did was set a finish line for our lifestyle. We made a commitment to each other to keep our lifestyle simple and modest, and use any additional money we made to fund ministry. If God chose to prosper our business beyond what it would take to generate our middle class salaries, we would not increase our lifestyle.

Then we locked in our commitment by telling other team members in our company so they could keep us accountable. We explained, “This is the lifestyle that we’re going to live. If you work hard at generating additional revenue here and God prospers us, these profits will mean nothing to our lifestyle as owners but they will mean a lot to the Kingdom.” So many believers were attracted to our business because they wanted to be part of supporting Kingdom work through business. But it also built in accountability for us.

The next thing we did was put a system in place to do all our giving as a group called GROVE . Our desire is to keep personal pride out of the giving process and share the joy of giving. So we involve team members of the company and their spouses in the giving process and make decisions as a group. We started as a group of six and now it’s almost 50 people.

The first year we didn’t know if our new venture would even survive. We began with a small group of about 10 employees and equipment from the original family company plus the corporate offices, which were two bedrooms of the home I grew up in.

What happened next is pretty amazing. The company started to grow and the first year we made some extra money. We were able to give away \$50,000—more than my salary, which I thought was awesome! Our profit with a purpose group, GROVE, prayed and decided where God wanted us to invest His money. We established an international focus for our giving because we saw such a disproportionate need there.

The next year we were able to give \$150,000.00, and the next year it was more, and the next year it was more. God just kept bringing excellent employees into our business and doing miraculous things over and over again. We grew about 25% a year for the next 23 to 24 years. We went from being a very small company to a fairly medium-size business.

In the early 2000’s, we were able to give away a million dollars one year. Then one of our salesmen (you know how salesmen are) came up with what seemed to be an outrageous goal: to give away a million dollars a month. In 2005, we were able to achieve this goal for the first time. Since then, we have continued to give away a million dollars a month every year.

Eventually, our earnings (EBITDA, to be precise) grew to \$60-\$70 million and the value of our business had become a significant burden to us. We were spending a lot of money and effort trying to figure out how

to transfer the company if one of us died. Many of the financial advisors we met did not have any solutions. Finally, we were introduced to National Christian Foundation and were able to accomplish our goals by giving the majority of our business value to charity during our lifetimes.

In 2007, we contributed 99% of our business ownership interests (in shares of non-voting stock) into an irrevocable charitable trust. Some people think we are crazy but it was a wonderful relief to us. Our personal balance sheet changed a lot that day, but our lifestyle did not change at all. If I die now, we can pass on the stewardship of the company without having to transfer the dangerous part – the weapon of wealth; and, our estate taxes are completely eliminated. If the company is ever sold, 99% of the proceeds will stay in ministry.

All this time, my brother and I and our families have continued to live a modest lifestyle. It's been an amazing adventure to be a small part of what God is doing in dozens of different countries around the world. We are helping folks that are much more godly, committed, and sacrificial than I ever will be. But helping them with funding, tools, and training is such a great a joy.

As for my children, it has been a blessing that they have not grown up as rich kids. They have the privilege of sitting around our dinner table with people from dozens of different countries as they come through the U.S. to hear what God is doing in Libya, or Iraq, or in China. They have grown up hearing about how great God is and what He is doing all over the world. I think that is so much better than video games, trips to Disney World, or the things that they've not been able to do.

We do a lot of things as a family, like going camping, and we have a lot of fun. And in reality, we don't live a sacrificial life at all. We live a life that even by U.S.

## Tools & Toys: A Child's View

When we talk about spending money with our kids, we use tool and toy terminology. A toy is something we would buy for our own pleasure, comfort, or fun. A tool is something we would buy that God could use in His service. We try to minimize the investment in toys and maximize the investment in tools.

One of the tools we have spent a fair amount of money on for our kids is international travel. They've been able to see what God is doing all over the world. So when we went through the process of basically giving our company away, it was not a traumatic experience for them. They were totally on board with it. My oldest son said, "Thank you, thank you for doing this. This saved me a lot of potential heartache."

We don't indulge their every desire but that's freeing for our kids. We spend a lot of time with them and we opened their eyes by taking them around the world. The Bible says leave a rich inheritance for your children and I think that has little to do with money. I want to leave a rich inheritance of faith, education, ability, and motivation.

standards would be a very good life, and by global standards, would be extravagant. Even though there are some things that we have given up, we've given up none of the good stuff. And we have saved ourselves all the energy it takes to accumulate.

I hope that the result of sharing my story is not for anyone to say that I'm amazing but to say the God that I serve is amazing. He has blessed me beyond my wildest dreams and I am grateful to have learned that it is so much more joyful to be a giver than a consumer. ■

# Transferring Ownership to God: The Life of Stanley Tam

by Todd Harper, Generous Giving

*Todd Harper is President of Generous Giving, a stewardship ministry based in Chattanooga, TN. For the past 10 years, he has been engaged in Generous Giving's mission to spread the biblical message of generosity in order to grow generous givers among those entrusted with much. With a background in ministry overseas as well as investment management for wealthy individuals, Todd uses his passion to encourage others so they may excel in the grace of giving.*

---

Over the past 10 years at the ministry of Generous Giving, I've had the privilege of getting to know business owners all over the country who are using their unique platform to serve God. But when I met Stanley Tam, I learned what it looks like when a businessman truly transfers ownership to God.

The life of Stanley Tam is a powerful testimony to the spiritual prosperity gained when one surrenders completely to God. I have known Stanley personally and had the opportunity to observe the fruit of his life and his business. While every business owner may not be called to give their entire business to God, the fruit of Stanley's decision presents a compelling case for considering the possibility.

At the very beginning, Stanley gave up control of his struggling business, US Plastics Corporation, to God by placing 51% of the stock in a private foundation. He said if God chose to prosper the business, he would use 51% of the profits to spread the Gospel. At the

time Stanley did this, he was only making \$14 a week.

Slowly, the business began to turn around and Stanley realized that perhaps 51% was not enough. He became convinced that God wanted it all. So in the mid-1950's, he and his wife, Juanita, made the decision to give the remaining 49%, thus placing 100% of the stock into the charitable foundation. They chose to draw only a moderate salary from the business to live on. The result of their decision is that over the past half-century, the company has generated over \$115 million in profits that have been given to Kingdom work.

Interestingly, while Stanley is remarkably generous, his primary spiritual gift is not giving but evangelism. He has spoken more than 7,000 times to various groups, and eagerly shares his faith to this day with as many as will listen.

At 94, he is still a powerful speaker. And I certainly will never forget the first time that he spoke to me. I asked him what words of instruction he would give to a man seeking to follow God. He didn't hesitate, but looked fully into my eyes and said, "One word, obedience."

Today, I would describe Stanley as one of the most contented men I've ever met. His simple obedience to God with everything he owns has produced a life of abundant joy in his family, business, and ministry. By transferring ownership to God, Stanley's life is an inspiring example of a man that God has made rich in every way possible. ■

# About Our Father's Business: Creating Life Change Through the Generous Business

by David H. Wills, National Christian Foundation

*David H. Wills is President of National Christian Foundation and one of the country's leading experts on charitable giving from a biblical perspective. With a personal passion for generosity, David helps some of America's most generous business leaders explore the tax and spiritual implications of giving so they can be wise stewards of their resources. He is also the co-author of two books, Investing in God's Business and Family. Money.*

---

The Creator has gifted business leaders across America with the unique talent and ability to create. Through your company, you have the power to create jobs that bless families, invent products and services that make the world a better place, and create wealth that can solve some of the greatest needs on the planet and bring redemption and restoration to a lost and hurting world.

For the past several decades at National Christian Foundation, I have witnessed the tremendous positive changes that generous businesses have created for their communities, employees, and the world. And I am encouraged by the growing trend of business owners using their giftedness to convert financial capital into spiritual capital resulting in Kingdom impact. When business leaders are about their Father's business, the returns are staggering and the results are eternal.

Today, America's corporations are facing one of the greatest opportunities in history to harness creative talent for the greater good. Although the challenge is great – the whole church taking the whole Gospel to the whole world – conservative estimates indicate that \$1 billion a year could be all that's needed financially to complete the task of the Great Commission in our lifetime. And just pennies a day can make a huge difference in addressing many of the world's most pressing problems such as hunger, clean water, sanitation, childhood diseases, and AIDS.

Imagine a day when all business owners commit a percentage of their time, talent, and equity to accomplish this God-sized project. What changes could you create around the world through your company – less hunger, more education, better healthcare, the scriptures in every language reaching the unreached, more access to the life-changing power of the Gospel? In whatever way the Lord leads, I challenge you to become a more generous business...it's the best investment you'll ever make. ■



# Tax Implications for Charitable Gifts of Common Business Entities to a Donor-Advised Fund

ISSUE / FEATURE	C CORPORATIONS	S CORPORATIONS	LLC/PARTNERSHIPS
Fair Market Value Deduction	No Reductions	Reduced for "Hot Assets": Appreciated Inventory Accounts Receivables Certain Depreciation Recapture	Reduced for "Hot Assets": Appreciated Inventory Accounts Receivables Certain Depreciation Recapture
Tax Upon Sale of Business (Stock/Entity Sale)	None	Capital Gain Taxed as UBTI	None
Tax Upon Sale of Business (Asset Sale)	Tax at Corporate Level (~ 35% Federal Rate) No Tax on Dividends or Distributions to Shareholders	Capital Gain Taxed as UBTI "Hot Assets" subject to UBTI (Ordinary Income)	Capital Gain Tax (None) "Hot Assets" subject to UBTI (Ordinary Income)
Tax on Annual Operating Income	Tax at Corporate Level (~ 35% Federal Rate) No UBTI to Charity — Distributions/Dividends to Charity Shareholder is Exempt from UBTI	Constitutes UBTI Taxed as Ordinary Income (NCT Will Reduce Tax Liability by at Least 50%, Sometimes More)	Constitutes UBTI Taxed as Ordinary Income (NCT Will Reduce Tax Liability by at Least 50%, Sometimes More)
Benefits of Giving Underlying Assets of Business Instead of Entity Interests	Avoid Corporate Level Tax, But Deduction Limited to 10% of Corporation's AGI	Depends on Amount of Assets Sold in Relation to Value of Entire Business: If Substantial—Capital Gains Taxed as UBTI If Not Substantial—No Tax	None (Tax Implications are the Same as Gifts of Entity Interests)
Impact of Debt	None	None	Charitable Deduction Reduced, Income Recognition to Giver, Capital Gain Tax to Charity Upon Sale

# Glossary

## 501(C)(3)

Section of the Internal Revenue Code (Code) that designates an organization as a tax-exempt charity. Organizations qualifying under the Code include religious, educational, charitable, amateur athletic, scientific, or literacy groups; organizations testing for public safety; or organizations involved in prevention of cruelty to children or animals. (Most organizations seeking foundation or corporate contributions have a 501(c)(3) status.)

## CHARITABLE GIFT ANNUITY (CGA)

A contractual arrangement in which donors give an asset such as stock in a business in exchange for an annuity that carries the promise of fixed payments for the rest of their lives. This is known as a split-interest type of gift in which part of the gift is a charitable contribution, and part of the gift is an investment. The CGA is a popular gift plan because the annuity payments are guaranteed by the assets of the charity that issues the agreement, and because a shortened annuity payment yields benefit to a charity that advances the donor's ministry intent rather than to a for-profit company.

## CHARITABLE LEAD TRUST (CLT)

A split-interest trust arrangement in which one or more charitable recipients receive current, regular distributions from the trust during its term. At the termination of the trust, the remainder of the trust assets are distributed to the donor or to third-party beneficiaries designated by the donor. Under this arrangement, the donor receives a charitable contribution deduction for the portion of the property distributed to the charitable recipients.

## CHARITABLE REMAINDER TRUST (CRT)

A split-interest trust arrangement in which the donor, or third-party beneficiaries designated by the donor, receive current, regular distributions from the trust during its term. At the termination of the trust, the remainder of its assets are distributed to one or more charitable recipients. Under this arrangement, the donor may avoid capital gains taxes on donated assets, while also receiving a charitable contribution deduction for the calculated fair market value of the remainder interest likely to be distributed to the charitable recipients. Since the assets contributed to the trust will never return to the donor,

those assets are removed from the donor's estate, resulting in beneficial estate tax and estate administration effects. While the contribution is irrevocable, the grantor may have some control over the way the assets are invested, and may even be able to modify the recipient charity or charities over time. CRTs generally come in three types: charitable remainder annuity trust (which pays a fixed dollar amount annually), a charitable remainder unitrust (which pays a fixed percentage of the trust's value annually), and a charitable pooled income fund (which is set up by the charity, enabling many donors to contribute).

## COMMUNITY FOUNDATION

A type of foundation formed by broad-based community support from multiple sources: trusts, endowments, individual contributions, private foundations, or corporate grants. A community foundation generally makes grants only within a specified geographic area and is governed by a board representing the community it serves. Some community foundations sponsor donor-advised funds for contributors.



**CONTRIBUTIONS COMMITTEE**

A corporate group organized to make grant decisions usually with the guidance of a corporate foundation or contributions administrator. Typical responsibilities include setting and interpreting policy, approving an annual budget, and reviewing grant requests.

**CORPORATE CONTRIBUTIONS**

A general term referring to charitable contributions made by a corporation. Usually used to describe cash contributions only, but may also include other items, such as value of loaned executives, products, and services.

**CORPORATE FOUNDATION**

(also called a company-sponsored foundation)

A foundation that receives at least most of its revenue from a profit-making company but is an independent legal entity. Usually this type of foundation carries the name of the parent company. Corporations may fund these foundations with a donation of permanent assets or with periodic contributions.

**CORPORATE GIVING PROGRAM**

(also called a corporate contributions program)

Funding that is distributed directly by a corporation, rather than through a foundation. Often handled by the Public Affairs or Public Relations department.

**DONOR-ADVISED FUND**

Donor-advised funds are alternative charitable giving vehicles offered and administered by a sponsoring charity. Designed to be accessible, simple, and administratively inexpensive, donor-advised funds are the fastest

growing charitable giving vehicle in America today. An individual, family, or business entity can set up a donor-advised fund quickly online, make an irrevocable charitable contribution, and receive a charitable contribution receipt for the current tax year. Thereafter, from time-to-time, the donor recommends grants from the fund to charities, and provided that those recommended recipient charities meet the policies established by the sponsoring charity, the grant is typically made as advised. Since most of these funds can be set up and administered primarily online, the overhead and administrative costs incurred by the sponsoring charity usually are very minimal. The donor may designate one or more people to make the grant recommendations for their fund, and the fund may continue even after the donor's death. Since grants to the ultimate recipient charity are made from the fund and therefore technically in the name of the sponsoring charity, gifts can easily be made anonymously. Additionally, since the sponsoring charity is a public charity rather than a private foundation, the donor is able to claim charitable deductions at the higher public charity adjusted gross income deduction limits. Donor-advised funds are offered by a wide variety of sponsoring charitable organizations including those affiliated with mutual fund or investment companies, broadly focused community foundations, and more narrowly focused organizations such as Christian community foundations.

**FINANCIAL ADVISOR**

An individual or firm who provides counseling and evaluative services to donors before and after grant-making decisions.

**FOUNDATION**

A private, nonprofit organization with funds and a program managed by its own trustees and directors, established to further social, educational, religious, or other charitable activities by making grants (also see Private Foundation). A private foundation receives its funds from, and is subject to control of, an individual family, corporation, or other group of limited number.

**GRANT**

The award of funds to an organization to undertake charitable or tax-exempt activities.

**GRANTEE**

Individual or organization that receives a grant. Also called a donee.

**GRANTOR**

Individual or organization that makes a grant. Also called a donor.

**IN-KIND CONTRIBUTION**

Support in the form of goods or services rather than a cash contribution.

**INDEPENDENT FOUNDATION**

A private foundation that is no longer controlled by the original donor or donor's family.

**MATCHING GIFTS PROGRAM**

A corporate contributions program that will match contributions made by employees, retirees, and their spouses to qualifying nonprofit organizations. Specific guidelines regarding the type of organizations included, donor eligibility, and the dollar amount that will be matched are established by each corporation.

**MATCHING GRANT**

A grant or gift made with the specification that the amount donated must be matched from other sources on a one-for-one or some other prescribed basis.

**NONPROFIT**

A term describing an organization whose income is not used for the benefit or private gain of stockholders, directors, or any other persons with an interest in the company. A nonprofit organization's income must be used solely to support its operations and stated purpose.

**PAYOUT REQUIREMENT**

Private foundations are required by law to pay out at least 5% of the fair market value of their assets each year in grants and administrative expenses.

**PRE-TAX NET INCOME**

A corporation's annual net income before it has paid taxes. The Internal Revenue Service currently allows corporations to deduct charitable contributions of as much as 10% of their pre-tax net income.

**PRIVATE FOUNDATION**

A foundation that receives most of its income from, and is subject to control of, an individual or other single or limited source. (See foundation.) Also the technical IRS term for an organization that is tax-exempt under Internal Revenue Code Section 501(c)(3) and classified as a private foundation under the Internal Revenue Code.

**PRIVATE OPERATING FOUNDATION**

A legal classification for an endowed organization that uses its income to directly operate a charitable activity,

such as a school or camp, rather than primarily to make grants.

**PUBLIC CHARITY**

Public charities are designated under Internal Revenue Code Section 501(c)(3) of the Internal Revenue Code and are defined in Section 509 (identified by the Code as "not a private foundation"). A public charity normally receives a substantial part of its income, directly or indirectly, from the general public or from government sources. The public support must be fairly broad, not limited to a few individuals or families.

**SUPPORTING ORGANIZATION (SO)**

Tax-exempt Section 501(c)(3) charities are further characterized as either "public charities" or "private foundations," with private foundations being subject to greater limitations than public charities. A supporting organization qualifies as a public charity (and not a private foundation) not as the result of the nature of its activities or of meeting a public support test but rather because it has a close relationship with another public charity. As part of that relationship, the supporting organization must provide meaningful support (financial, programmatic or both) and give some degree of structural and operational control to one or more other public charity organizations. Supporting organizations allow their founders less control over the organization than private foundations; but supporting organizations also are not subject to the additional excise taxes and other limitations placed on private foundations. Further, unlike donations to a private foundation, donations to a supporting organization benefit from the

higher adjusted gross income deduction limits permitted for other public charities.

**TAX-EXEMPT ORGANIZATION**

A nonprofit organization that does not have to pay federal income taxes and typically no state income taxes as well. An organization other than a church must apply to the IRS and often to a state Attorney General or other agency to receive tax-exempt status.

**UNRELATED BUSINESS TAXABLE INCOME (UBTI) AND UNRELATED BUSINESS INCOME TAX (UBIT):**

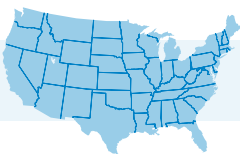
UBTI is income earned by a tax-exempt entity from a trade or business regularly carried on that is not substantially related to furthering the exempt purposes of the organization. UBIT is the tax the charity may owe on this income after deducting the business expenses associated with its production. Exempt organizations often are subject to UBIT on the UBTI produced by (1) certain fundraising activities carried on by the organization (e.g., selling buttons, mugs, T-shirts), and (2) certain business interests contributed by generous donors. Organizations must assure that their unrelated activities are not substantial enough to jeopardize their exempt status. Beyond that, they typically seek to reduce UBIT as much as possible within the law, but consider the remaining UBIT to be an understandable "toll charge" on the ancillary activities that are yielding supplemental funds with which the organization carries out its exempt purposes.

## Take The Next Steps

- ▶ For more help on how to grow a truly generous business, visit [nationalchristian.com/business](https://nationalchristian.com/business) to download these free resources:
  - › Giving Vehicle Comparison Chart
  - › Generous Business Check-Up
- ▶ Explore our innovative giving solutions or find your nearest National Christian Foundation office at [nationalchristian.com](https://nationalchristian.com) or 800 681 6223.

## About Our Ministry

Headquartered in Atlanta, Ga., National Christian Foundation (NCF) is the largest Christian grant-making foundation in the world. Our innovative, tax-smart solutions help you simplify your giving, multiply your impact, and glorify God. Since 1982, we have received over \$4 billion in contributions and made over \$2.5 billion in grants to thousands of churches, ministries, and non-profits.



**Find your nearest office at  
[nationalchristian.com](http://nationalchristian.com) or 800 681 6223.**

© 2011, National Christian Foundation. Opinions expressed within do not constitute legal opinions, advice, or counsel. Individuals must rely upon the advice of their own attorney and tax counsel.

Unless otherwise noted, all scripture references are from the New American Standard Bible Copyright © 1960, 1962, 1968, 1971, 1972, 1973, 1975, 1977, 1995 by The Lockman Foundation, La Habra, California. All rights reserved.