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The Main Street Giving (MSG) Coalition is an advocacy campaign working to change the tax laws to permit S-Corporation owners to donate part or all their ownership interests to a charitable remainder trust (CRT) for the benefit of charity. This law change will treat these S-Corporation owners the same as other owners of small businesses, like LLCs and small C-Corporations.

Since the passage of tax reform last year, some in Congress have been looking for new ways to expand charitable giving. Offering S-Corporation owners a new way to donate their ownership interests could significantly increase the dollars going to America's nonprofits at a time when they need them the most. The MSG Coalition is poised to get this done through education and direct advocacy in Washington.

Attached you will find materials we developed for our outreach on Capitol Hill. As we move forward we are seeking additional resources to support direct advocacy and hope to count on your support. All funds raised go directly toward efforts to move legislation through Congress.

Both me and our team in DC stand ready to provide further information about the campaign and answer your questions.

Thank you for considering joining the Main Street Giving Coalition,

A handwritten signature in black ink that reads "Charles J. McLucas Jr." in a cursive script.

Charles J. McLucas Jr.
Certified Public Accountant



The Main Street Giving Coalition is working to level the playing field for all small businesses that donate to charity. Outdated rules prevent owners of S-Corporations from making certain gifts to charity, while other types of small businesses don't face those same restrictions. We can correct this problem by updating the rules governing S-Corporations, the small businesses that are the backbone of the U.S. economy and make vibrant Main Street America.

The Problem

Many S- Corporation owners and shareholders are nearing retirement and are looking for ways to donate their business assets to charities in their community.

One way that owners and shareholders of Limited Liability Companies (LLCs) and C-Corporations can give to charity is through a Charitable Remainder Trust (CRT). A CRT provides taxpayers a way to donate part/all of their businesses to charities generally upon their death. And in the interim, it allows for the taxpayer to receive an annuity in retirement. This split-interest CRT is smart giving because it generates income for the donor in retirement while earmarking a valuable asset for charity.

However, under current law, S-Corporations are the only entities unable to take advantage of CRTs. This inequitable treatment puts S-Corporations, their owners and the charities they support at an unfair disadvantage in the sale of that business.

Here's an example of the unfairness:

Suzy Shareholder is a part-owner of an LLC. She is preparing to retire and decides to transfer all her shares in the LLC worth \$500,000 to a charitable remainder trust for the benefit of the Red Cross, a charity in her hometown. Upon receiving those shares, the trust sells them for \$500,000 and invests the \$500,000 in a mutual fund. Suzy Shareholder can receive 5% of the return on that mutual fund for the rest of her life to supplement her retirement. Upon Suzy's death, the balance of the trust goes to the Red Cross. If Suzy were a part-owner of an S-Corporation, none of this would be available to her or the Red Cross.

A Solution

The Main Street Giving Coalition has a straightforward solution that would put S-Corporations on par with C-Corporations and LLCs.

First, Charitable Remainder Trusts need to be authorized shareholders of S-Corporation stock. S-Corporations could then be put into a CRT without losing their tax status.

Secondly, a corresponding change is needed to amend the UBIT rules to allow charities, upon the sale of the donated asset, to avoid UBIT on the proceeds of the sale.

The Bottom Line

By allowing a Charitable Remainder Trust to be an authorized shareholder of S-Corporation stock, all small business owners and shareholders would be treated equally, more resources would flow to charities to bolster our communities by correspondingly correcting the UBIT rules.

The recent tax reform bill puts at risk about \$95 billion a year in donations to charities. This proposal could help bridge that gap.

Additional Background

Prior to 1958, entrepreneurs had only two choices of entities to run their businesses: either as a C-Corporation or choose to be a partnership or sole proprietorship. Neither of these options were ideal for most small businesses. The Tax Reform Act of 1958 created the S-Corporation, offering a single layer of federal tax along with liability protection to business owners. And in 2014 there were estimated to be 4.6 million S-Corporation owners in the United States, according to the S-Corporation Association.

While the S-Corporation community has grown, the rules governing S-Corporations have lagged. Additionally, the emergence of Limited Liability Companies has given entrepreneurs new options for forming business, along with a substantial opportunity for charitable giving. It's time to modernize the treatment of all forms of small business entities when it comes to charitable giving. Empower all of Main Street to give.



Leveling the Playing Field for Charitable Giving by Small Businesses

Question and Answer

Q. When were S-Corporations created?

A. The Tax Reform Act of 1958 created the S corporation.

Q. Why were S-Corporations created?

A. Small businesses needed an uncomplicated way to incorporate offering them liability protection but with only a single layer of federal tax.

Q. What is the most popular form of business in the United States?

A. The S-Corporation. It is estimated there are over 5 million of them in the U.S., most of them small businesses.

Q. Why would charities support a proposal to allow S-Corporation shareholders contribute part/all of their ownership interests into a Charitable Remainder Trust (CRT)?

A. The recently enacted Tax Cuts and Jobs Act doubled the standard deduction which took the charitable deduction away from about 30 million taxpayers, according to estimates from the Ways and Means Committee. That puts at risk \$95 billion/year in charitable giving.

Q. What is a Charitable Remainder Trust (CRT)?

A. A charitable remainder trust is an irrevocable trust that allows the donor to pursue their philanthropic goals while helping provide for expenses in retirement. In practice, a donor makes contributions to a trust, with the understanding that the trust will eventually go to a predesignated charity. The donor can then receive an income stream from the earnings of the trust generally for the remainder of his/her lifetime.

Q. What are the benefits of a Charitable Remainder Trust (CRT)?

A. The charitable remainder trust is a split interest giving vehicle that allows a donor to make a charitable impact while also receiving a stream of income, in many cases to ease retirement. The benefit to the charity is that they can count on a significant gift to sustain a program or mission that is important to the charity.

Q. May S-Corporation stock be donated to a charitable remainder trust?

A. No. S corporation stock, even a single share, donated to a charitable remainder trust will immediately invalidate the S-Corporation election.

Q. May other business organization stock be donated to a charitable remainder trust?

A. Yes. Every other business entity, including C-Corporations and LLCs, can contribute to a charitable remainder trust. S-Corporations are the only entity that cannot take advantage of a charitable remainder trust.

Q. How do we allow S corporation stock to be donated to a charitable remainder trust?

A. By amending the IRC Section 1361(c)(2)(A) to add a charitable remainder trust as a permitted shareholder for S corporations.

Q. Upon receiving and selling the asset donated by the S-Corporation shareholder, wouldn't the charity pay UBIT on the proceeds?

A. Yes, and that is why the unrelated business income tax (UBIT) rules need to be revised as well to permit the charity to avoid UBIT on that sale, just as it does upon the sale of an asset donated by a C-Corporation shareholder and LLC shareholder.

Q. How do we address the UBIT rules?

A. We amend IRC Section 512(e)(1) rules applying to UBIT, exempt S corporation stock in CRTs from assessment on appreciated value when sold by the trustee of the CRT.