

Turning Capital Gains into Charitable Gains: The MS GIFT Solution

In the following cases, Paul and Sarah used strategic charitable giving through MS GIFT donor advised funds (DAFs) to not only mitigate their tax burdens but also make a meaningful impact on causes they care about.



Paul Avoids \$2.9M in Taxes by Donating Business Interests

Paul was preparing to sell his farm-to-table business to a private equity company for \$95 million. Since growing his business organically since 2005, his cost basis was nearly zero, resulting in significant capital gain tax at the time of sale.

Understanding Paul's passion for helping others and the looming tax bill, his attorney and tax advisor recommended giving to an MS GIFT donor advised fund.

Paul contributed 10% of his company to MS GIFT prior to the sale, avoiding capital gain tax and claiming a charitable income tax deduction*. After the sale of Paul's company, the DAF received the proceeds, and Paul was able to recommend grants to charities supporting refugees.

Paul's Tax Savings: Sale vs. Direct Donation

	Sell First, Then Donate Cash	Donate Business Interest Directly
Fair Market Value of 10% Business Interest	\$9,500,000	\$9,500,000
Cost Basis	\$0	\$0
Taxable Gain	\$9,500,000	N/A
Capital Gains Tax (30.8%)	\$2,926,000	\$0
Value Received by Charity	\$6,574,000	\$9,500,000
Charitable Deduction Claimed	\$6,574,000	\$9,500,000

*Assumes the donor held the asset for longer than one year and the donor's long-term capital gains' tax rate is 30.8%, the combination of 20% capital gain rate for earners in the top tax bracket, the 3.8% Net Income Investment tax (NIIT) and a 7% state tax rate. All cases require consultation with appropriate legal and tax counsel. Morgan Stanley, its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning, charitable giving, philanthropic planning and other legal matters.

Sarah Avoids a Costly Conversion Tax by Giving Strategically

Quantum Labs Inc. offered the opportunity to transfer common units of Quantum Holdings LLC along with paired Original Partner shares. This caused an income tax liability for Sarah, a founding partner, due to taxable events upon share conversion.



Solution:

Michael, a financial advisor, recommended using MS GIFT to donate a portion of the business interest—helping avoid capital gain tax on the gifted shares and potentially using the charitable income tax deduction to offset other investment gains.

Advisor Impact:

- Michael's client's gift (previously illiquid assets) now sits in Michael's book of business.
- Michael is also spearheading a consolidated annual share gifting program across multiple partners at Quantum Labs.
- The Quantum Labs partners liked how Michael integrated the donor advised fund into an overall wealth management strategy, which gave him an opportunity to strategically cultivate these relationships ahead of an anticipated IPO.

Client Impact:

- Avoided capital gains taxes (20% CG, NIIT 3.8%)
- Potential FMV charitable income tax deduction up to 30% AGI each year a donation has been made.

Tax Impact:

Donation Benefits

Total gifts among X partners	\$58M
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Combined total charitable deduction	\$58M
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Taxes Avoided

Capital gains taxes avoided (20%)	\$11.6M
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NIIT avoided (3.8%)	\$2.2M
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Total Tax avoided	\$13.8M
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By aligning their financial goals with their philanthropic values, Paul and Sarah turned potential tax burdens into powerful opportunities for giving. Their stories highlight how thoughtful planning and the right tools—like donor advised funds, can transform complex transactions into lasting impact.

Disclosures:

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Although donors will have certain rights to make recommendations to MS GIFT as described in the Donor Circular & Disclosure Statement, contributions become the legal property of MS GIFT when donated. The Donor Circular & Disclosure Statement describes the risks, fees and expenses associated with establishing and maintaining an MS GIFT account. Read it carefully before contributing.

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