

## PROFIT DONATION GUIDELINES

### How it Works

There are two primary reasons why companies choose to do a profit donation:

1. **To fund your philanthropic work as soon as possible.** If your company is just starting, it's likely that you won't have a liquidity event for multiple years, in which case an equity pledge alone will stall your ability to give back financially until that time. Founders who want to begin giving back sooner rather than later will generally commit profit instead of, or in addition to, equity.
2. **If you are an LLC or an S-Corp.** Unless you are a C-Corp, we would suggest donating 1% of profits rather than equity for legal reasons.

If you don't have profits yet, you could donate a portion of revenue instead. If you don't feel like 1% is the right amount for you, feel free to give less (or more). Want to just give a portion of profit from one specific product? That works too! Pledge 1% is very flexible—we recognize that our companies are at all different stages and have different levels to give back.

### Completing Your Pledge

Profit pledges require only two simple steps:

1. [Pledge Letter](#). This is a simple non-binding letter that reflects your intention to share 1% of your annual profits and 1% of net company sale proceeds with nonprofits of your choosing. All you need to do is fill out this document and then send it back to the Pledge 1% team to be signed by our Chief Executive.
2. [Gift Allocation Recommendations Form](#). This allows you to nominate nonprofit recipients to receive the cash value of your profit donations. Note that you can fill out the Allocation form at any time—it does not have to be when you take the profit pledge. You can also update your allocation recommendations at any time.

### Deciding Where To Donate Your Money

Generally speaking, we suggest you start small with just a few initial partners, and then grow the number of nonprofits you donate to over time as your program matures. This makes it easier for you to get a program off the ground and to iterate as you learn what works and what doesn't specifically for your company.

[Here are some questions and considerations](#) to help you with the selection process, and here are two short articles that you can check out as well: [Forbes: 4 Tips For Giving To The Right Nonprofit](#) and [Mashable: How To Decide Which Charities Your Business Should Support](#).

When identifying the causes/organizations your company will support, a great place to start is by [surveying your employees](#). Asking about the interests of your current team can help you find a corporate focus that will engage and excite the entire company. Another option is to simply [match employee donations](#) or to allocate your funds toward a [Dollars for Doers program](#).

## **Making the Most of Your Dollars**

If you're an early stage company and don't have a ton of money to donate, consider how you may be able to make an impact through the purchases you're already making or the ways you're running the company internally. For example, you could stock your kitchen with [coffee that helps to build schools](#) or [juice that helps to end sex trafficking](#), or you could commit to only catering from [socially-focused vendors that create jobs for those in need](#).

Here is a [short deck](#) and [workbook](#) to help you think about how else you can make your company into more socially conscious internally.

## **Pledge 1%'s Role in Your Fund Disbursement**

We do not play any formal role in the disbursement of your funds or approval of where your money goes. You are free (and encouraged) to distribute the money yourself in whatever way you see fit and to whichever nonprofits you choose to support. That said, there are two ways we can help:

1. Get you set up with a Donor Advised Fund (DAF) to manage your philanthropic donations. This is not necessary if you are distributing a relatively small amount of money (under \$100k) over a normal cadence; however, if your profit is very large and/or you aim to disburse in a complex manner (e.g. through an innovation competition), then we would suggest using a DAF. You can find our list here of recommended partners who manage DAFs both in the US and abroad.
2. Tell us your story so we can highlight it! We love to highlight our members and help get you good press, so send us what you've done.

## **Understanding Potential Tax Benefits**

Question: What are tax incentives/implications of a profit pledge? Does this vary by stage of company? Are there additional benefits to pledging both equity and profit from a tax perspective?

Answer: A profit pledge does not result in a deductible contribution for a corporation until the profit is quantified and transferred to a charity (e.g. in the form of a check or wire transfer). An equity pledge results in a tax deduction when the equity ownership is transferred on the

corporation's books to the public charity. A profit pledge would be treated as a separate donation from the equity donation, so the benefit to pledging both comes from the timing of the tax deductions. The tax implications are not affected by the stage of the company, but the complexity in determining the fair market value of the donation can vary if there is no active market. Donors should consult their tax advisor for specifics.