LEHIGH VALLEY COMMUNITY FOUNDATION

ADVISOR CONNECTION

FALL 2022

THE BEAR MARKET

Charitable Giving in a Challenging Economy

At the moment, economic conditions feel, well, awful. Some people feel better if they can gain a better understanding of the factors that created the unpleasant mix of inflation, rising interest rates, and a bear market in the first place. Others are comforted knowing they are not alone as they ride the emotional rollercoaster. And for those who are charitable inclined, challenging economic times might actually serve as an inspiration to become more intentional about charitable giving priorities. Here are three messages worth sharing with your philanthropic clients as bear market conditions hang on into the fourth quarter:

"Not all stocks are down."

Giving appreciated stock to a donor-advised fund or other type of fund at the community foundation is always a tax-savvy alternative to giving cash, regardless of the economic situation. Your clients may feel disappointed that their portfolios have hit a rough patch, but this does not mean that there aren't still plenty of opportunities to avoid capital gains tax on stocks held for more than a year. (See Apple stock price history)

"Consider those who are even more acutely feeling the inflation pinch."

Community needs are rising, and the community foundation is dedicated to staying on top of the issues that are critically important to quality of life at any given time. Families with low or moderate household incomes can be especially vulnerable to high inflation. The team at the community foundation can help your clients zero in on nonprofits in our community that are serving the people who need the most help right now.

"Don't forget about the Qualified Charitable Distribution."

It is a financially-savvy way for your clients to support the charities they care about. If your client has reached the age of 70 1/2, the client may be eligible to make annual distributions of up to $100,000 per spouse from IRAs directly to an unrestricted or field-of-interest fund at the community foundation or other qualifying public charity. QCD transfers count toward satisfying clients' Required Minimum Distributions and avoid the income tax on those funds. Plus, those assets are no longer part of a client's estate at death, which avoids estate taxes, too. What's more, the QCD may get a boost if the EARN Act becomes law; proposed bipartisan legislation would expand the QCD rules to allow a one-time, $50,000 QCD to a split-interest trust such as a charitable remainder trust.

HURRICANE RELIEF

Your Clients and the Important Role of Individual Philanthropy

In the wake of Hurricane Ian, your clients may ask you about their options to support those affected by the storm. We encourage you to reach out to the team at the Community Foundation. We can connect your donors with a variety of options for giving that are trustworthy and effective. Individual giving is critically important to any disaster relief effort, and the Community Foundation can help your clients make an immediate, powerful, and positive impact on the lives of those affected by Hurricane Ian or any disaster.

LVCF will work with your clients to establish area-of-interest funds or unrestricted funds at LVCF to ensure that the people in our region remain as safe and supported as possible when disaster strikes. Especially heartwarming is that many donors are now exploring ways to help improve a community's readiness for disaster response, including building reserve funds for future disaster relief and bolstering emergency preparedness infrastructure for medical care, food, clothing, and shelter delivered by a network of local, on-the-ground nonprofit organizations. Learn more...

NONPROFIT SECTOR INSIGHTS

Counseling Your Clients About Nonprofits: The Good, the Bad, and the Big Leaps

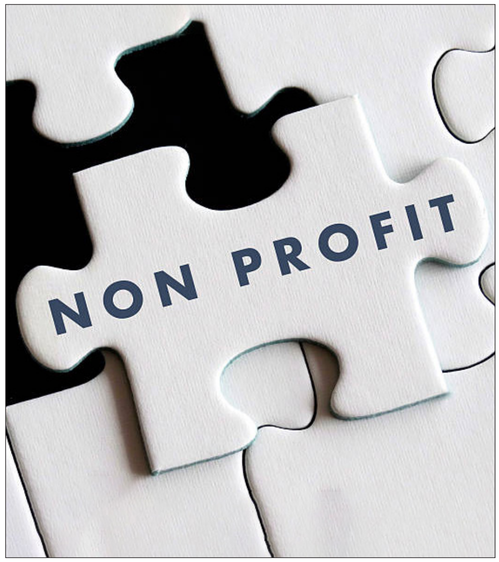
The nonprofit sector accounts for more than 12 million jobs in the United States, and job growth in the nonprofit sector in recent years has outpaced job growth in the private sector. As an advisor, you are more likely than ever to represent clients who hold executive positions at nonprofits, serve in key roles on nonprofit boards of directors, or do business with nonprofit organizations. Please reach out to LVCF as a resource when questions about nonprofit matters arise in your client discussions. Here are three examples of the types of issues that come up in the nonprofit arena:

Good

The application process for exempt status has improved dramatically in recent years, thanks to IRS enhancements to its Form 1023. This is important for you to know when you are advising clients who are involved with a new charity. For those familiar with the application process, the new Form 1023 was a huge win and a major IRS accomplishment.

Bad

Watch out for exempt status issues. At the heart of a nonprofit's favored tax treatment is the concept of "exempt purpose"--meaning, essentially, operating for the public good, not to further private interests. For charitable entities organized under Internal Revenue Code Section 501(c)(3), exempt status is crucial for an organization to remain exempt from paying income tax. Exempt status under Section 501(c)(3) also allows contributions to the organization to be eligible for income tax deductions (as well as estate and gift tax deductions). A bitter case in point is described in a recent private letter ruling outlining the reasons a healthy juice enterprise lost its exempt status.



The Big Leaps

The nonprofit sector, powered by private philanthropy, can be, and has been, transformational for our society. If you've not spent some time reading up on the major societal changes that have their roots in the nonprofit sector, you might consider doing so. As always, the team at the community foundation would welcome an opportunity to provide big picture background and inspiration to support the ongoing service you provide your clients who are involved in the nonprofit sector.

IRS Expansion Raising Eyebrows

Inflation, interest rates, income tax, and the IRS are ever-present topics during discussions with your clients this fall as you help them consider their options for structuring charitable giving and philanthropic legacies in the current economic environment. Projected increases in the IRS's ranks may be raising more advisors' and clients' eyebrows than actual tax hikes. The much anticipated Inflation Reduction Act is now law, and while the Act did include changes to a few income tax provisions, many tax professionals are viewing the Act's $80 billion in funding increases for the IRS to be the bigger headliner.

Some commentators worry that the IRS still may not be able to build its staff and update technology as quickly as the legislation anticipated. Nonetheless, financial advisors, attorneys, and accountants are taking note. In all likelihood, shoring up the IRS's operations means that the chances of client audits will increase. Your clients may even be reading up on this in the mainstream media, which frequently cites unusually large charitable deductions as a potential trigger for an IRS audit.

> Now is the time to make sure your clients understand the rules for charitable deductions and commit to keeping track of their donations in detail. Establishing a fund at LVCF is an easy way for clients to organize and track their annual giving.

Some clients, for example, make a single, tax-deductible transfer of highly-appreciated stock each year to their fund at the community foundation. The proceeds from the sale of that stock are then used for distributions from the fund to the client's favorite charities. In this situation, no matter how many different charities benefit from the fund, the client still has just one receipt to keep track of charitable donations for income tax deduction purposes.