LEHIGH VALLEY COMMUNITY FOUNDATION

ADVISOR CONNECTION

MARCH 2023

Hidden No More: Designated Funds and Area-of-Interest Funds

Most attorneys, accountants, and financial advisors are well-aware of donor-advised funds and the reasons behind their popularity. When a donor-advised fund is established at the Community Foundation, this vehicle is an excellent way for your clients to organize their charitable giving but sometimes other fund vehicles are more advantageous and should be considered.

Enter the Qualified Charitable Distribution

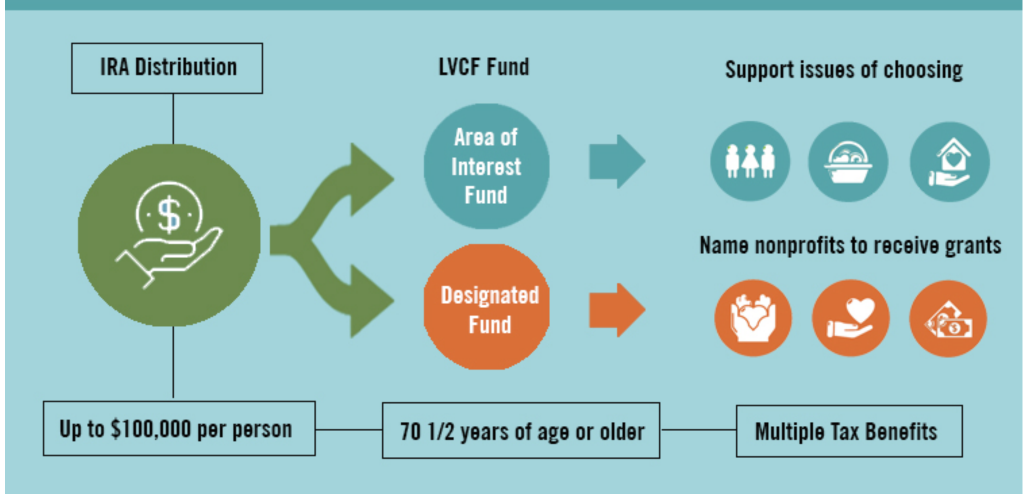
Your clients can give nearly any type of asset to a donor-advised fund at the Community Foundation. A notable exception, though, is the Qualified Charitable Distribution. A QCD allows a taxpayer 70 ½ or older to make a direct transfer of up to $100,000 annually from an IRA to a qualifying charity. A donor-advised fund is not considered to be a qualifying charity.

Although DAFs cannot accept QCDs, the Community Foundation offers other types of funds that can accept QCDs. For example, designated funds and area-of-interest funds held at the LVCF are ideal recipients of QCD transfers. These fund types are often overlooked, despite the high value they can deliver to your client and to the community.

What is an Area-of-Interest Fund?

The Council on Foundations defines a "field of interest fund" as, "A fund held by a community foundation that is used for a specific charitable purpose such as education or health research." At LVCF, it's called an area-of-Interest fund. Perhaps your client is passionate about rare-disease solutions, feeding the food insecure or preserving works of art. Your client selects the name of the fund (family, cause-related or even nondescript) and then, the knowledgeable team at LVCF distributes grants from the field-of-interest fund in a way that is aligned with your client's values and charitable wishes outlined in the fund documentation.

Ideal Funds for Qualified Charitable Distribution (QCD) Transfers



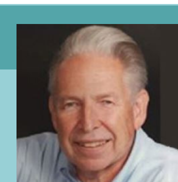
What is a Designated Fund?

Designated funds are defined as, "A type of restricted fund in which the fund beneficiaries are specified by the grantors." These are a good choice for a client who knows they want to support a particular charity or charities for multiple years. The client names the fund and the Community Foundation fulfills the distributions. Made over time, these funds can help the charity's or charities' cash flow planning. Distributions are aligned with your client's wishes set forth in the original fund document.

QCD reminders

For the client aged 70 ½ through 72, a QCD removes funds from an IRA before the client reaches the age-73 threshold for Required Minimum Distributions (RMDs). This can lessen the eventual income tax hit that accompanies RMDs. And for RMD-applicable clients, the QCD counts toward their RMD. In both cases, the QCD transfers do not fall into the client's taxable income. QCDs are even more popular now that the $100,000 cap will be indexed for inflation under the new laws. Also, under the new laws, a one-time, $50,000 distribution to a charitable remainder trust or charitable gift annuity is now permitted.

Case in Point



Barry Kessler established an area-of-interest fund utilizing LVCF's network and knowledge of the nonprofits in the region to effectively address food and housing issues. More...

Giving a Business to Charity: Stack the Odds in Your Client's Favor

Despite recent reports of a 55% decline in charitable giving by the top 50 U.S. donors in 2022, high profile giving by donors associated with well-known businesses has maintained its place in the limelight, even amid recent market volatility and tenacious concerns about inflation and interest rates. Recent examples abound, including last year's gift of Patagonia by founder Yvon Chouinard; the well-reported generosity of philanthropists Melinda French Gates and MacKenzie Scott; and the portion of the proceeds, potentially worth $5 billion, from the eventual sale of Subway restaurants that are set to flow to a charitable foundation.


Yvon Chouinard

Advance planning is critical. LVCF can get involved as early as possible in your discussions with a client about giving part (or all) of a closely-held business to charitable causes. These transactions carry with them layers of complexity, largely around the timing of the charitable gifts in relation to the sale transaction. The best outcomes are achieved through a thoughtful, multi-step process.

As an advisor to business owners—and collaborating with the community foundation—you can help your clients leverage potential future liquidity events to support the causes they care most deeply about.

Many successful closely-held exit transactions occur only after several years of planning—and most of that planning occurs well before potential buyers are even engaged. This planning period is an important time for your client to consider giving ownership shares of the company to a donor-advised fund at the community foundation, especially knowing that under certain circumstances, the proceeds of the shares held by the donor-advised fund will be immune from capital gains taxes if the business eventually does sell, leaving more money for client's causes.

You might even consider encouraging your client to give shares to a donor-advised fund not all at once, but in increments over time during the business exit planning period (before a buyer is identified). This can help avoid the appearance that the gift is merely a function of the business sale and as such intended to be a tax dodge. If the IRS determines that the stock gifts to charity and the sale of the company are really one and the same event—a "step transaction"—the tax benefits of the charitable deduction could be disallowed.

Another essential part of the process is to secure a proper valuation of the stock by an independent and qualified appraiser for charitable deduction purposes when the ownership is gifted to the donor-advised fund at LVCF.

Please reach out to LVCF to discuss how we can help your business owner clients who intend to maximize their future ability to support the charities they love.

IN THE NEWS

LVHN's Leigh Ehrlich Joins Board of Governors

Leigh Ehrlich,CPA, CHFP, MBA, joined LVCF's Board of Governors in 2023, Leigh is Senior Vice President and Chief Financial Officer for Hospital Operations at Lehigh Valley Health Network (LVHN). She serves on the Community Foundation's Finance Committee.

In Leigh's role at LVHN, she is responsible for driving improvement in financial performance working closely with the senior leadership for the thirteen hospital facilities. In addition, Leigh spearheads Network initiatives that drive improved margin performance through revenue enhancement and/or expense reduction and market growth.

Leigh joined LVHN in 2015 following a 15-year tenure in Big 4 accounting followed by a corporate finance role at Catholic Health East/Trinity Health.

Leigh holds a Bachelor of Science degree in Management, concentrating in accounting from East Stroudsburg University and earned her MBA at Lehigh University. She is a Certified Public Accountant and is a member of the Healthcare Financial Management Association.

Leigh is also a Certified Healthcare Financial Professional. She serves on the following boards: Lehigh Valley Chamber of Commerce Board of Governors, Women's 5K Classic, Lehigh Valley Anesthesia Services and Lehigh Valley EMS. She serves as treasurer for Lehigh Valley Anesthesia Services and Lehigh Valley EMS.