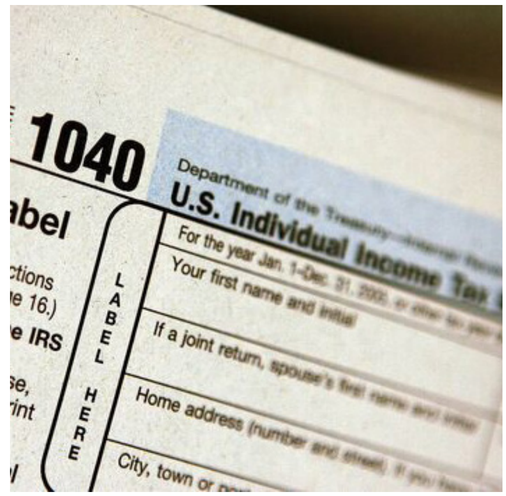
LEHIGH VALLEY COMMUNITY FOUNDATION
ADVISOR CONNECTION
October 2023

Clients want to know: What's deductible and what's not?

Whether you are an estate planning attorney, financial advisor, or accountant, you've probably seen an uptick in client questions about tax deductions–and tax rules in general–over the last few years. Tax law changes at the end of 2017 have caused a lot of ongoing taxpayer confusion. To be sure, your clients will be asking about charitable tax deductions as year-end rolls around. With imminent end of the calendar or tax year, now is the time to reassess things like tax loss harvesting and charitable giving. These are just two of many types of transactions that result in deductions when tax returns are filed in the spring.



Charitable giving may be especially high on the planning radar right now because of the many national fundraising initiatives that kick into gear this time of year. You (and your clients) have probably noticed that many different types of causes are celebrated each and every month. Make sure your clients are aware that there are specific parameters around tax deductibility before they respond to requests from organizations and even their friends and family members who support these organizations.

Your clients are relying on you as an advisor to stay on top of the rules, including:

- Section 501(c) of the Internal Revenue Code lays out the requirements for organizations to be considered tax-exempt--a status for which an organization must seek IRS approval.
- Tax exemptions apply to certain types of nonprofit organizations, but status as a nonprofit (which is a state law construct) does not necessarily mean that the organization will be exempt from Federal income taxes.
- Furthermore, even under Section 501(c), there are different types of nonprofits that are recognized by the IRS as tax-exempt.
- To qualify under the Internal Revenue Code Section 170 charitable deduction for gifts to Section 501(c)(3) organizations, for example, the recipient must be organized and operated exclusively for "charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and the prevention of cruelty to children or animals."
- Your clients may also support social welfare groups organized under Section 501(c)(4). Examples include neighborhood associations, veterans organizations, volunteer fire departments, and other civic groups whose net earnings are used to promote the common good. Donations to social welfare groups are tax deductible in only certain cases (e.g., gifts to volunteer fire departments and veterans organizations).
- Chambers of commerce and other business leagues fall under Section 501(c)(6); donations to these entities are not tax deductible.

"Charitable," according to the IRS, has a very narrow definition.

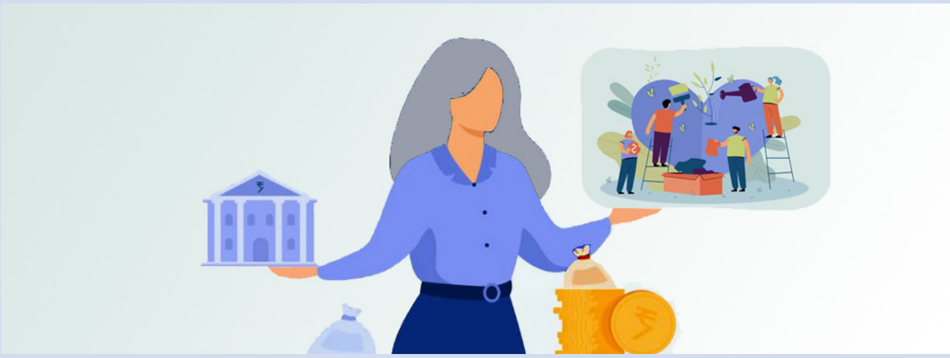
If you have any questions about the tax deductibility of your clients' contributions to various organizations, please reach out to the team at the Lehigh Valley Community Foundation, 610-351-5353 or info@lvcfoundation.org. We are immersed in the world of Section 501(c) every single day and are happy to help you navigate the rules.

The Philadelphia Federal Reserve's Ryotaro Tashiro, senior outreach economist, and Kali Aloisi, economic outreach associate, will present **Economic Outlook & Developments in Residential & Commercial Real Estate** on Tuesday, October 17, 1:30 to 5 p.m. at Northampton Country Club. More...

Spotting Opportunity:

Moving from a Commercial Fund to the Community Foundation

Many professional advisors are not aware that a donor-advised fund established at the Community Foundation is in most cases a far better fit for their clients than a DAF set up at a "commercial gift fund." As you meet with your clients about year-end planning, be sure to ask whether they've established a donor-advised fund and if so, where it's housed. If a client's DAF is not at a community foundation, please give us a call. We would be happy to talk with you and your client about the ease and benefits of moving the donor-advised fund to LVCF.



The Community Foundation offers DAF holders the same tax and administrative benefits as a commercial gift fund, but unlike standard commercial gift funds, though, LVCF offers high-level, customized services to its donor-advised fund holders,

- Concierge-level service by knowledgeable staff to structure estate gifts to charities and accept gifts of appreciated stock or complex assets such as real estate or closely-held stock
- In-house experts who have a finger on the pulse of community needs, the strengths of specific nonprofits, and how to structure grant making for the highest possible community benefit
- Opportunities to collaborate with other donors who care about similar issues and forums to tap into local and national subject matter experts
- Opportunities to go deep into specific issue areas, both through education and hands-on involvement
- Assistance with structuring and measuring the impact of grants
- Family philanthropy and corporate giving services to foster a well-rounded, holistic approach to philanthropy
- Administrative fees that are reinvested into the community foundation, itself a nonprofit, to help support operations, grow its mission, and help even more donors support the causes they care about
- Hands-on assistance from local experts who understand both local and distant needs, and welcome the opportunity to research and identify causes aligned with donors' goals and priorities
- Staff members who live in the community they serve and often personally know the leaders and staff of grantee organizations and regularly hear about their needs first-hand

Keep an eye out for clients' donor-advised funds at commercial gift funds. You'll be doing a tremendous service for your client, and you'll be helping the local community. At the Community Foundation, hard-earned assets receive the attention they deserve as your clients strive to make a difference in the causes they care about the most.

LVCF is up-to-date on the trends in philanthropy that affect women as they build charitable components of their estate and financial plans. Here are three examples of cases where the LVCF team can help:

Family philanthropy vehicle funded with tax-efficient assets

We can work with you and your client to establish a DAF that includes your client and her children as advisors so that they can all learn together about nonprofit organizations in our community and jointly decide on grant recipients, tapping the knowledge and connections of the LVCF team. We can help you identify the most optimal assets for your client to transfer, including highly-appreciated stock, real estate, or even an interest in a closely-held business.

Funds dedicated to a specific area of interest funded with IRAs

Our team can provide deep research and expertise on a client's specific areas of interest. We can work with your client to establish a area-of-interest fund at the community foundation to receive Qualified Charitable Distributions from your client's IRAs. Your client can also name the field-of-interest fund as the beneficiary of the IRA to receive the remaining assets at her death.

Organization-specific support formally incorporated in estate plan

For a client who has dedicated many years of her life to supporting a particular charitable organization, she could even leave a bequest in her will or trust to establish a designated fund at LVCF that provides supplemental income each year to the organization's operating budget.