LEHIGH VALLEY COMMUNITY FOUNDATION

ADVISOR CONNECTION

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Tax Return Reviews Help Clients Level Up Giving Plans

Tax time has its silver linings! Going over a tax return with a client helps start a productive conversation about ways to plan gifts to charity more effectively. As you scan 2023's charitable contributions, talk with the client about whether those charitable gifts were made with cash or with other assets and then steer the conversation toward discussing the most effective assets to give to charity during 2024 and beyond.

Here is a four-point checklist that can help you advise your clients about the range of charitable giving options.

1. **Cash is not king when it comes to charitable giving.** Cash is typically not the most tax-effective form of charitable giving. Instead, encourage clients to consider giving highly-appreciated assets, including publicly-traded stock, to their fund at the community foundation to support their favorite charities.

2. **Think even beyond stock.** Encourage clients to explore not only highly-appreciated stock as a potential gift to charity, but also the various forms of "noncash" assets that can make great charitable gifts. After all, American households' most valuable assets are retirement accounts and personal residences, not cash. Examples of assets that could be excellent charitable gifts depending on the client's circumstances include gifts of real estate, closely-held stock, collectibles, and, for clients who are age 70 ½ and older, direct transfers from an IRA (known as a Qualified Charitable Distribution) to a field-of-interest or unrestricted fund at the community foundation.

3. **Make it easy on yourself and your client.** Reach out to the team at the community foundation for assistance! We are happy to help you and your client evaluate the best assets to give to a donor-advised or other type of fund at the community foundation to achieve the client's charitable goals.

4. **Close the loop on IRS reporting.** Remember that the reporting requirements are different for noncash gifts to charity versus cash gifts. Make sure you are familiar with IRS Form 8283, which must be filed with any tax return claiming a deduction for noncash assets valued at $500 or more. The IRS expects strict adherence to the terms of the form, especially the requirement for a qualified appraisal. On our end, the community foundation will handle the confirmation of receipt and a commitment to document and notify the IRS if disposition occurs within three years.

Opening up the full range of charitable giving options for a client can help you structure a holistic estate and financial plan that meets the client's objectives for family wealth, philanthropy, and tax effectiveness. Reach out anytime to the team at the Community Foundation to discuss techniques and strategies.

Shell funds and other tools for charitable clients who are planning ahead

The LVCF team can help you with your clients' long-term charitable giving plans by putting in place the structures to receive bequests decades from now.

When finalizing an estate plan for a client wishing to bequeath to various charities, their preferences may shift due to changing involvement in these organizations. Such a client might periodically adjust their charitable bequests while keeping the rest of the plan stable. For instance, a trust might allocate 10% of the estate to five specified charities. However, should the client later wish to include an additional charity, amending the trust, a potentially lengthy process, would be required.

Alternatively, the client's trust can designate the Community Foundation fund as the 10% estate beneficiary. The client and Foundation can create a fund agreement specifying the recipient charities. For changes, such as adding or swapping charities, the client simply updates the fund agreement with the Foundation. This efficient method keeps bequests flexible to meet the community's evolving needs.

In cases where clients don't plan to use the fund in their lifetime, a "shell fund" can be set up by the Community Foundation to remain inactive until after their death. Clients can name the fund as they wish and modify the shell fund agreement at any time before passing. Contact us for more details.

Gifts of appreciated stock: Let the numbers do the talking

Despite frequent reminders to reconsider, many clients still donate cash. As legal or financial professionals, you know donating appreciated assets is more tax-efficient for supporting charities. However, conveying this effectively can be challenging. Next time, try using visuals to highlight the benefits. Here are three examples to demonstrate the advantages of donating appreciated stock to your clients.

Sally & Bob Jones $100K

Sally and Bob Jones plan to give $100,000 to their donor-advised fund at LVCF to organize all of their giving for the calendar year. Let's assume Sally and Bob have a combined adjusted gross income of $600,000, which lands them in the 35% federal income tax bracket. If they gave $100,000 in cash to their donor-advised fund, they could realize an income tax savings, potentially, of $35,000.

What if instead of cash, Sally and Bob gave highly-appreciated, publicly-traded stock, valued currently at $100,000, to their donor-advised fund. Let's assume they've been holding the stock for many years, and the shares have a cost basis of $20,000. Not only are Sally and Bob eligible for a potential income tax deduction that will save them up to $35,000, but they have also potentially avoided $12,000 of capital gains tax that they would have owed if they'd sold the stock (using a long-term capital gains tax rate of 15%). So, it's easy to see why Sally and Bob should consider giving highly-appreciated stock instead of cash.

Jen & Joe Smith $1 million

Jenny and Joe Smith plan to give $1 million to community causes this year. They'll do that by adding $500,000 to their donor-advised fund at the Community Foundation, which in turn they will use to support their favorite charities. They'll also be making a $500,000 gift to an unrestricted fund at the community foundation to help address the region's greatest needs for generations to come. Let's assume that Jenny and Joe are in the highest federal income tax bracket because they earn multiple seven figures.

If they were to give $1 million in cash, they could save, potentially, up to $370,000 in income tax. If they gave publicly-traded stock instead of cash, assuming a $200,000 cost basis in stock valued currently at $1 million, they would still potentially save up to $370,000 in income tax, and they would also potentially avoid $160,000 in capital gains tax (based on a long-term capital gains tax rate of 20%).

Tiffany & Brett Thomas $5 million

Tiffany and Bob Thomas plan to give $5 million to charity. They would like to use publicly-traded stock valued at $5 million. The want a lifetime income stream from these assets, so that the remaining assets will flow to their fund at the LVCF after their deaths. In this case, you'll explore setting up a charitable remainder trust that pays out an income stream to Tiffany and Brett while they are both living and then to the survivor for the survivor's lifetime.

Let's assume they are both 55 years old and that the stock has a very low cost basis—just $500,000. Depending on the IRS's applicable rates, and assuming a 5% annual payout rate paid at the end of each quarter, here's an approximate tax result if you worked with LVCF to help Tiffany and Brett establish a charitable remainder unitrust:

- $1,042,550 approximate potential income tax deduction based on the present value of the gift of the remainder interest to charity
- $4,500,000 in capital gains that may not be subject to tax
- $250,000 in total payments during the first year
- Annual payments of 5% of the value of the assets in the trust, which means the income stream will fluctuate depending on the value of the assets

Following the death of the survivor of Tiffany and Brett, the remaining assets will flow to the Thomas Family Fund at the community foundation, which Tiffany and Brett have already established and which, upon their deaths, will split equally into two funds. The first fund will be a donor-advised fund for which their children will serve as advisors, and the second fund is an unrestricted endowment fund to support the community foundation's priority initiatives in perpetuity.