Starved Rock Country COMMUNITY FOUNDATION

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Professional Advisor Newsletter

Your Partner in Strategic Philanthropy Professional Advisory Services

Empowering Financial Growth and Community Impact

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Greetings from SRCCF!

Emotional ties to stock and mixing business with charity

Hello from Starved Rock Country Community Foundation!

We hope your summer is off to a great start!

Thank you for continuing to partner with us in serving your charitable clients.

Every year, the Giving USA study released in June provides insights into charitable trends in America. Adjusted for inflation, 2023 saw a decline, making it more challenging for local charities to meet their community's needs. This is particularly relevant for your clients, for whom philanthropy is not just a financial strategy but also a deeply rooted family tradition.

In this newsletter, we're sharing insights to facilitate your client conversations on charitable giving:

Emotional Attachments to Assets: As advisors, you've encountered clients deeply attached to specific stocks, reluctant to part with them despite potential tax benefits from charitable donations. SRCCF can assist in navigating these emotionally charged decisions.

Integrating Business with Philanthropy: The concept of "doing well by doing good" is gaining traction in corporate giving. Many clients may consider corporate giving strategies, and we can help you advise them on tax implications and ethical considerations.

Understanding the Estate Tax Exemption: With the impending sunset of the estate tax exemption in 2025, awareness among clients is growing. It's crucial to understand how this could impact their financial planning, including opportunities for strategic charitable contributions through our Foundation.

Please don't hesitate to contact us at any time. We're here to support you in achieving your clients' charitable goals, now and in the future.

Wishing you a wonderful summer!

Fran Brolley

Gifts of appreciated stock: Picking favorites

You're well aware that donating highly-appreciated stock to a fund at SRCCF offers significant advantages for your clients over making cash gifts. Communicating this benefit, however, can be challenging when clients have emotional attachments to their shares.

How can you overcome this hurdle and help optimize your clients' charitable giving strategies?

Start by understanding the reasons a client might be reluctant to part with certain stocks in the first place:

- Legacy: "These shares have been in my family for generations."
- Professional: "I worked at this company for decades; it's the source of my wealth."
- Simple preference: "I just love this stock."

Emotional ties like these can create psychological barriers to effective charitable planning. There is, however, a potential solution that can satisfy both your clients' emotional needs and their philanthropic goals: The client donates shares of the highly-appreciated, emotionally significant stock to their fund at SRCCF, and then the client purchases shares of the same stock in their personal investment portfolio.

Here's why this can be such an effective strategy:

- Maximize tax deductions: Publicly-traded securities are typically deductible at fair market value (and the tax savings could potentially help fund the repurchase).
- Reset cost basis: This transaction effectively resets the cost basis of the stock in the client's personal portfolio to its current market price, potentially reducing future capital gains taxes.
- Emotional satisfaction: Clients can support charities while maintaining their shareholder status in the company they like.
- Community impact: SRCCF sells the donated shares tax-free, thereby maximizing the proceeds flowing into the client's fund, and the fund in turn can be used to support the client's favorite causes.

As you share this strategy with a client, be sure to acknowledge the emotional value of the stock and emphasize the client's opportunity to maintain ownership in the company. Building on this, you can show the client how the tax benefits of giving stock allow the client to make an even bigger difference than if they'd given cash instead.

As always, SRCCF can help you assist your clients with selecting the best assets to give to charity, evaluate tax implications of various giving strategies, and structure gifts to achieve strong community benefit. We look forward to a conversation!

Mixing business and charity: Keep it ethical, legal, and transparent

Your clients who are corporate executives have likely wondered at some point about the benefits of aligning their companies with philanthropy, whether specific causes or particular organizations.

In general, a community engagement strategy can be good for business, if well-executed. For example, almost half of consumers view a brand favorably when the brand supports a charitable cause. Community engagement programs can help with employee retention, too.

But what are the risks involved in mixing business with charity?

In the spirit of aligning doing good with doing well, some companies would love to set up their own nonprofit organizations as "charitable arms" of their enterprises. Corporate leadership may like the idea of efficiency, control, and tight alignment between the company's offerings and the charity's mission. For example, a company that makes swimming pools might think it's a great idea to set up a charity to build swimming pools at community centers to give more kids access to water sports. The company would like to donate tax-deductible dollars to the charity and ask its suppliers and customers to do the same. The company's executives would serve on the board of the charity, and the charity would purchase swimming pools from the company to carry out its mission.

Is this a good idea?

No. This strategy plays fast and loose with the rules. Beyond setting up an obvious conflict of interest, this practice would mean that a company effectively would be using charitable funds to benefit itself. This is not a "charitable purpose" in the eyes of the IRS and could result in the loss of the charity's tax exemption. Plus, if the news got out about this structure, the company could suffer reputational damage.

The company, its executives, and the community are all better off if the company pursues more transparent and ethical charitable strategies such as establishing a corporate fund at our Foundation, setting up a volunteer program for employees, establishing a matching gifts program, or aligning with wholly-independent charities on cause-related marketing partnerships.

Reach out to SRCCF to learn more about effective corporate philanthropy strategies. We are here to help as you work with your clients to achieve their charitable goals both at home and in the workplace.

Our team looks forward to working with you and your clients who are corporate executives, or even local small business owners, who are excited to give back to the community where they've built businesses and developed lasting relationships with employees and customers.

Planning for a sunset: Lock in a higher exemption, unlock a legacy!

Without legislation to prevent it, the sunsetting of current estate tax laws at the end of 2025 will dramatically reduce the federal estate tax exemption from $13.61 million per person in 2024 to approximately $7 million in 2026 (this includes adjustments for inflation). This change would affect many high net-worth individuals and families, likely exposing many more estates to federal estate taxes.

It is impossible to predict whether or not legislation will prevent the sunset. Even so, it is important for advisors to prepare for client discussions and start considering estate planning strategies now, especially techniques that incorporate multi-generational gifts and charitable planning.

Indeed, for a client who is charitably-inclined, making larger lifetime gifts to charity and arranging for charitable bequests will help reduce the client's taxable estate because of the charitable estate and gift tax deduction. Donor-advised, field-of-interest, designated, unrestricted, and endowment funds at SRCCF are flexible and effective charitable recipients of both lifetime and estate gifts.

For some clients, you may wish to begin exploring a comprehensive, multi-generational wealth transfer plan, potentially using key tax-planning vehicles:

Charitable lead trust - Charitable lead trusts (CLTs) may be particularly effective in the current environment. These trusts can provide income to your client's fund at our Foundation for a set period of time, with the remaining assets passing to family members. Right now, the higher exemption allows for potentially significant initial funding of such trusts. This is because the value of the remainder interest counts toward the client's estate and gift tax exemption.

Generation-skipping trust - A generation-skipping trust is an irrevocable trust that can benefit a client's grandchildren and later generations. This trust utilizes a client's generation-skipping transfer (GST) tax exemption (which parallels the estate and gift tax exemption). This type of trust could allow a client to take advantage of the higher exemption before it potentially decreases in 2026. It is possible under some states' laws for these trusts to go on for many generations in a "dynasty" format, such that each generation benefits from the trust's income (and potentially principal for health and education) without the trust's assets being included in the beneficiaries' estates for estate tax purposes.

Multi-generational fund at SRCCF - Alongside a charitable lead trust or generation-skipping trust, or as a standalone, a client can establish a donor-advised fund at our Foundation that can function much like a family foundation, with successive generations serving as advisors, or SRCCF stepping in after the first or second generation, to recommend grants from the fund to carry on a tradition of supporting the causes that have been most important to the client during the client's lifetime.

The team at SRCCF looks forward to working with you to achieve your clients' long-term charitable goals, even in the midst of uncertainty concerning the estate tax laws.

The team at Starved Rock Country Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.

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