Starved Rock Country COMMUNITY FOUNDATION

PROFESSIONAL ADVISOR NEWSLETTER

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YOUR PARTNER IN STRATEGIC PHILANTHROPY PROFESSIONAL ADVISORY SERVICES. Empowering Financial Growth and Community Impact

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GREETINGS FROM SRCCF!

ADVISING FRUGAL CLIENTS, PASSING WEALTH TO CHILDREN, AND STEPS TO GIVE REAL ESTATE

It's hard to believe Fall 2024 is upon us. The team at the SRCCF is here to support you as you help your clients update their charitable giving plans. We're already hearing from many of you that you expect the next few months to be very busy as clients reach out with questions about possible tax law changes and how charitable giving can fit into estate and financial planning strategies.

We're constantly on the lookout for ways to help your clients who want to leave a bequest to their favorite causes. Now is a great time to evaluate how best to help clients who may lean toward the frugal end of spending practices but who still want to support local charities.

Structuring estate and financial plans to leave just the "right" amount to children can be tough. We can help you incorporate charitable giving into the plans you are developing for parents who want to provide for their kids but don't want to demotivate children's own quest for financial independence.

Gifts of real estate to a fund at the SRCCF can work wonders for both the charitable causes your client supports as well as the client's tax situation. Please reach out to us to learn more about each critically important step in the process and how to comply with tax laws.

The team at SRCCF 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.

Looking forward to working with you.

Fran Brolley

COUNTING PENNIES: HOW TO COUNSEL FRUGAL YET CHARITABLE CLIENTS

Over the years, you've no doubt experienced a wide range of what clients perceive as "wealthy." You've likely also observed that clients have different assumptions about what it takes to be a "philanthropist." The interplay between a client's perception of personal wealth and charitable giving capacity presents interesting opportunities for client engagement. You may find yourself helping a client get comfortable with pursuing their charitable objectives while remaining secure in the knowledge that their financial plan is on track.

Whether clients choose to give to charity or not depends on a lot of factors. Here are a few themes to keep in mind as you work with clients who skew toward the more frugal end of spending practices.

STAY WITHIN BUDGET. A client's fear of running out of money may be preventing them from investing more meaningfully in the causes they care about. When savings-minded clients express charitable intentions, you can certainly guide the conversation toward showing them that their assets, income sources, expenses, and long-term projections are in good shape and leave them plenty of room to make charitable donations. When you lay out the big picture, even your historically cautious clients may see that they truly have more flexibility than they realize.

EVERY GIFT COUNTS. Some clients who watch every penny are concerned that giving modestly doesn't really rise to the level of "philanthropist" and might not make a difference. These clients may not realize that everyone can make a difference through small gifts, large gifts, and everything in between. The SRCCF team is happy to help your clients get started with charitable giving at a level that makes the most sense for them, whether that's setting up a donor-advised or other type of fund at the community foundation, arranging for a bequest to a fund, or, for your clients who are 70 ½ and older, structuring a gift from an IRA to a designated fund to support a favorite nonprofit.

BANG FOR THE BUCK. Our team can help show your clients how gifts of highly-appreciated stock to a fund at the community foundation can avoid capital gains taxes, thereby freeing up more resources to support favorite charities than if the client had sold stock, paid the tax, and then given the proceeds to charity. We can also help identify meaningful giving opportunities based on each client's budget and areas of interest.

SEE RESULTS. By activating philanthropy plans during their lifetimes, your clients can experience the joy of giving and witness tangible returns on their investments. The SRCCF team can arrange for a client to meet with nonprofit leaders and hear first hand the impact their money is making to improve peoples' lives. This real-time feedback also allows your client and the community foundation team to adjust giving strategies to more closely align with your client's evolving intentions.

We look forward to working with you and your clients. Philanthropy is meant to be fun and rewarding for everyone involved. Our team is here to help make that happen!

LESS CAN BE MORE: CHARITABLE GIVING HELPS PARENTS PASS WEALTH TO CHILDREN

How much is too much? That's a question many parents ask as they structure lifetime gifts and bequests to children in their financial and estate plans. Wealthy clients are sometimes concerned that leaving millions of dollars, or even hundreds of thousands, to their children could backfire and hinder their kids' ability and motivation to achieve financial independence.

In addition to concerns about fostering entitlement and dependency, many parents are concerned that their children will miss out on the satisfaction of knowing they built wealth on their own. These parents believe that the challenges and struggles along the way will ultimately enrich their children's lives with intangible benefits that are far greater than the obvious benefits that come with gifts or an inheritance of significant financial resources.

As you work with clients who feel this way, please reach out to us. Every day, our team works with families who are in this exact situation. We'll help you evaluate strategies such as:

–Establishing philanthropic components of an estate plan so that children receive only the amount that can pass to them free of estate tax, with the rest passing to a charity, such as a donor-advised fund at the community foundation.

–Setting up a donor-advised fund at the community foundation to allow your clients to support favorite charities during their lifetimes, with the terms of the donor-advised fund providing that the children step in as successor advisors following the clients' deaths.

–As successor advisors to the donor-advised fund, the children can work with the community foundation to recommend grants to favorite charities, support interest areas pre-selected by their parents, or both.

Many clients are attracted to this type of structure because not only could it avoid estate tax, but it also allows their children to stay involved with all of the family's wealth, work together and keep sibling bonds strong, and get involved in the community.

We look forward to exploring strategies to help your clients meet their financial and tax goals, as well as honor their wishes for children to live happy and productive lives.

GIFTS OF REAL ESTATE: WATCH EVERY STEP

We're hearing from more and more attorneys, accountants, and financial advisors that your clients are expressing interest in giving real estate to charity. This is wonderful news!

You're certainly aware that gifts of real estate to a fund at the SRCCF, just like gifts of other long-term capital assets, can be extremely tax-efficient. That's because your client is typically eligible for a charitable deduction based on the fair market value of the property. Because the SRCCF is a public charity, when it sells the donated property, the proceeds will flow into the fund free from capital gains tax.

To achieve the best tax outcome and overall charitable result, though, it's critical to undertake a careful process along the general lines of the following (depending of course on the specific situation):

- First, you'll need to determine that the real estate is a long-term capital asset (held for more than one year). That may sound obvious, but we've talked with advisors and their clients in the past about a potential gift of real estate and it turned out that the property was only recently purchased. The fair market value deduction (versus cost basis deduction) is available only for a long-term capital asset.

- Next, you'll want to work with the team at the SRCCF to structure a donor-advised or other type of fund to receive the asset, if your client does not already have a fund in place. The deductibility rules are different for real estate gifts to a public charity (such as a community foundation fund) versus a private foundation. Again, clients may not be aware of the pitfalls here. Sometimes we meet with advisors whose clients are very close to transferring real estate to a private foundation, which could be devastating in terms of missed tax savings.

- You'll need to verify that the property is not subject to a mortgage or other debt. Transferring encumbered property triggers important considerations with potentially significant tax consequences. The lender might not even allow a transfer in the first place. If you're dealing with commercial property, you'll also need to check to be sure that the property is not subject to "recapture" if your client has previously taken depreciation deductions.

- You will need to determine whether the property produces income and discuss this with us. Income-producing real estate can potentially trigger "UBIT" (unrelated business income tax) for the community foundation. Although there are exceptions and strategies to minimize UBIT's impact, it's important that this issue be dealt with up front.

- You may also need to determine whether an environmental audit is required for the property.

- Verify that the client has not entered into any discussions about an imminent sale of the property. Even if the community foundation will sell the property shortly after receipt (so that the proceeds can flow into the donor-advised or other fund to support the client's favorite causes), your client cannot have pre-arranged this sale. Doing so could trigger the IRS's step transaction doctrine and wipe out the tax deduction.
- Importantly, ensure that the client obtains a qualified appraisal to determine the fair market value of the property. This is critical to obtain a tax deduction, and the appraised value must be reported to the IRS on a Form 8283 in strict compliance with the IRS's rules.
- Finally, transfer the property with the appropriate legal documents, including a deed.

> **Whew! That's a lot! The bottom line here is that gifts of real estate can be a wonderful tool for both your client and the charities they want to support through their fund at the community foundation. We can help you through the process, every step of the way. We have on-call experts with whom we work regularly, to ensure that your client's real estate gift is handled without a hitch, opening the door to bring their charitable goals to life.**

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Connecting People Who Care With Causes That Matter

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THANK YOU FOR THE OPPORTUNITY TO WORK TOGETHER!

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