PROFESSIONAL ADVISOR NEWSLETTER

Starved Rock Country Community Foundation

MONTHLY NEWSLETTER — DECEMBER 2024

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FRAN BROLLEY
President and CEO
Starved Rock Country Community Foundation

GREETINGS FROM SRCCF!

LATEST INSIGHTS; ESTATE TAX PLANNING; QCDS; AND YOUR CHARITABLE PLANNING CHEAT SHEET

We appreciate the opportunity to work with so many of you as you build meaningful and tax-savvy charitable giving plans for your clients. The team at the SRCCF is here to be your first call anytime the topic of philanthropy pops up in your conversations.

As always, we're committed to keeping you up-to-date on tax and legal developments related to charitable giving so that you can be even more confident in your recommendations to clients. Here are three topics that are rising to the top of the list as 2024 slips away into 2025:

–All eyes are on what might happen with Federal tax laws under the incoming administration. Many advisors and their clients have found themselves in an uncomfortable state of limbo. Diving deeper into your clients' charitable planning strategies is a good use of your time right now, especially revisiting the advantages of naming a fund at the community foundation as the beneficiary of an IRA.

–Qualified Charitable Distributions, or "QCDs," continue to be popular among those who are 70 ½ and older. But do you still scratch your head just a little when you hear about QCDs? We get it–there are a lot of moving parts. To make it easier, we have put together a punch list of FAQs.

–Do you ever wish you could skim a "charitable giving cheat sheet" to quickly determine which charitable planning tools at the SRCCF might be a good fit for a particular client? We've got you! Check out three examples of "if this, then that" recommendations for charitable giving.

Thank you for the opportunity to work together! We wish you all the best for the season and look forward to your emails, phone calls, and questions about charitable giving techniques during this busy time of year.

Fran Brolley

ESTATE TAX PLANNING: WHAT'S YOUR NEXT MOVE?

As attorneys, CPAs, and financial advisors, you're very aware of potentially significant upcoming changes to the tax laws that could impact your high net-worth clients. Whether or not a post-election Congress takes action to prevent the estate tax exemption sunset at the end of 2025 will potentially affect the way you design your clients' wealth transfer strategies.

During this phase of uncertainty, it may be useful to reflect on historical estate tax changes to see how similar situations have been resolved in the past, while at the same time taking a practical approach and advising clients that, while commentators may speculate, it is still impossible to accurately predict what might happen. Estate taxes certainly will continue to be on the minds of leaders in the charitable sector for many months to come.

As you and other tax planning professionals watch and wait, it is important to keep charitable planning high on your list of strategies that could help blunt the impact of a lower estate tax exemption if the sunset were to occur. That's because gifts to charities are deductible from a client's taxable estate. Even during this era of uncertainty, be sure to keep in mind an important planning technique for your charitably-inclined clients that delivers multiple tax benefits and offers some degree of flexibility can be creating a fund with the SRCCF to be named as the beneficiary of a qualified retirement plan.

Here's why this is such a powerful technique, especially now:

INCOME TAX SAVINGS. When your client designates a fund at the SRCCF as the beneficiary of an IRA, the fund receives the assets without having to pay income taxes. This is because charities are tax-exempt entities, allowing them to receive funds from qualified retirement accounts tax-free after your client's death. This is not the case with qualified retirement plans flowing to heirs; the income tax hit can be significant.

ESTATE TAX DEDUCTION: Naming a charity as a beneficiary of a retirement plan results in an estate tax charitable deduction, which reduces any applicable federal estate taxes. This means that the full value of the IRA can flow into your client's fund at the SRCCF free from the estate tax burden.

FLEXIBILITY. Clients can revise IRA beneficiary designations anytime during their lifetimes. So, as the end of 2025 draws closer, a client can update an IRA beneficiary designation to name a fund at the community foundation, which would protect against a drop in the estate tax exemption. If the sunset does not occur, the client could of course revise the beneficiary designation to leave a greater portion of retirement plan assets to heirs. Remember, though, that the income tax hit will still apply to proceeds flowing to heirs. That's why many of your charitable clients will choose to leave IRAs to their funds at the SRCCF even if the estate tax exemption does not sunset. And, of course, many clients truly want to leave a legacy and would love to incorporate charitable giving into their estate plans regardless of what happens with the tax laws. As tax and estate planning advisor, it is your responsibility–and opportunity–to help clients achieve their philanthropic wishes.

> **Please reach out to our team to dive deeper into the ways you can help your clients fulfill their charitable goals, especially during this time when future tax laws are up in the air. We are here to help!**

QCDS: $105,000, $108,000, AND MORE THINGS TO SMILE ABOUT

As you and other attorneys, CPAs, and financial advisors put the finishing touches on implementing clients' year-end charitable giving plans, you may have a moment when it hits you: "Wait, how exactly does a Qualified Charitable Distribution work?"

That's a great question, and you are not alone if you're asking. Even though QCDs are well-covered in financial media, they're complex enough that it's hard to remember the nuances when you're hit with a situation where a client might benefit.

The team at the SRCCF is here for you! Please reach out with any of your charitable giving questions, including the most common questions about QCDs:

"IS AN IRA THE ONLY ELIGIBLE SOURCE FOR QUALIFIED CHARITABLE DISTRIBUTIONS?"

Short answer: Almost.

Long answer: An individual can make a Qualified Charitable Distribution directly to an eligible charity from a traditional IRA or an inherited IRA. If the individual's employer is no longer contributing to a Simplified Employee Pension (SEP) plan or a Savings Incentive Match Plan for Employees (SIMPLE) IRA, the individual may use those accounts as well. In theory, a Roth IRA could be used to make a QCD, but it is rarely advantageous to do that because Roth IRA distributions are already tax-free.

"WHAT IS THE DIFFERENCE BETWEEN A QCD AND AN RMD?"

Short answer: Quite a bit! But a QCD can count toward an RMD.

Long answer: Everyone must start taking Required Minimum Distributions ("RMDs") from their qualified retirement plans, including IRAs, when they reach the age of 73. RMDs are taxable income. The Qualified Charitable Distribution, by contrast, is a distribution directly from certain types of retirement plans (such as IRAs) to certain types of charities. A QCD can count toward the taxpayer's RMD for that year. And because the QCD goes directly to charity, the taxpayer is not taxed on that distribution.

"CAN A TAXPAYER MAKE A QUALIFIED CHARITABLE DISTRIBUTION EVEN IF THE TAXPAYER IS NOT YET REQUIRED TO TAKE REQUIRED MINIMUM DISTRIBUTIONS?"

Short answer: Yes–within a very narrow age window.

Long answer: RMDs and QCDs are both distributions that impact retirement-age taxpayers, and it would seem logical that the age thresholds would be the same. Under the SECURE Act, though, the required date for starting RMDs shifted from 70 ½ to 72 and is now up to 73 (which is better for taxpayers who want to delay taxable income). A corresponding shift was not made to the eligible age for executing QCDs; that age is still 70 ½ (which benefits taxpayers who wish to access IRA funds to make charitable gifts even before they are required to take RMDs).

"CAN MY CLIENT DIRECT A QCD TO A FUND AT THE SRCCF?"

Short answer: Yes, if it's a qualifying fund.

Long answer: While donor-advised funds are not eligible recipients of Qualified Charitable Distributions, other types of funds at the SRCCF can receive QCDs. These funds include unrestricted funds, field-of-interest funds, designated funds, and endowment funds established by us and other nonprofit organizations.

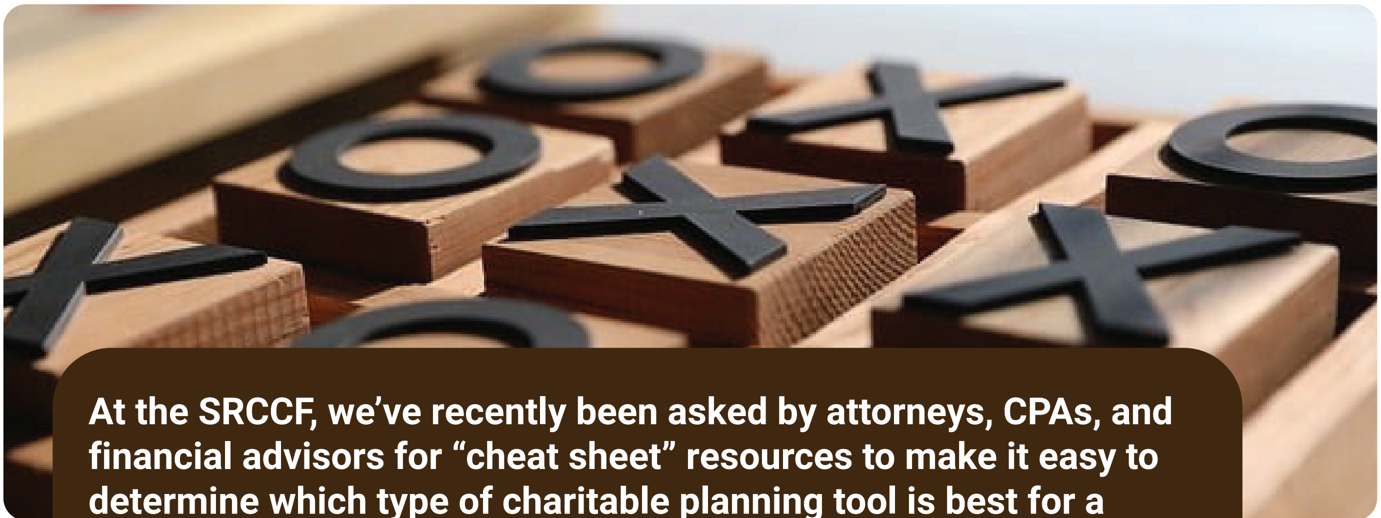
"HOW MUCH CAN MY CLIENT GIVE THROUGH A QCD?"

Short answer: $105,000 per year in 2024, increasing to $108,000 in 2025.

Long answer: A Qualified Charitable Distribution permits a client (and a spouse from a spouse's own IRA or IRAs) to transfer up to $105,000 in 2024 (and $108,000 in 2025) from an IRA (or multiple IRAs) to a qualified charity. So, a married couple may be eligible to direct up to a total of $210,000 in 2024 to charity from IRAs and avoid significant income tax liability.

> **As always, we are here to help you and your clients tap the potential of QCDs. Please reach out! We'd love to talk about a QCD strategy for your clients' immediate gifting needs and beyond.**

IF THIS, THEN THAT: YOUR CHARITABLE PLANNING CHEAT SHEET



At the SRCCF, we've recently been asked by attorneys, CPAs, and financial advisors for "cheat sheet" resources to make it easy to determine which type of charitable planning tool is best for a particular client. We love that idea! We're always happy to be a sounding board for any client situation where charitable giving is an option. Please reach out anytime you and a client are discussing philanthropy. To get your wheels turning, here are three scenarios that have popped up frequently over the last few weeks

STREAMLINE AND TAX-OPTIMIZE CHARITABLE GIVING

If: Your client supports many different charities every year...

Then: A donor-advised fund at the SRCCF can be an excellent tool to help a client organize their giving to favorite charities, such as local organizations, places of worship, and an out-of-state alma mater. Clients appreciate how easy it is to support multiple charities while our systems keep track of everything. Plus, clients can give stock and other appreciated assets to their donor-advised funds, often avoiding capital gains tax and simplifying tax receipts to provide their accountants when tax time rolls around.

SUPPORT A SPECIFIC CHARITY WHILE MINIMIZING RISK

If: Your client has supported a particular charity for many years, intends for that support to continue, and also wants to be sure that the funds are used effectively ...

Then: Through a designated fund at the SRCCF, a client can make tax-deductible gifts–during life and through estate gifts–that are set aside to be used exclusively for a particular organization. The community foundation makes distributions from the fund according to the client's wishes. An advantage of a designated fund is that the assets are out of creditors' reach if the charity were to run into financial trouble. Plus, a client who is 70 ½ or older can make Qualified Charitable Distributions up to $105,000 per year (increasing to $108,000 in 2025) from IRAs to a designated fund.

LEAVE A CHARITABLE BEQUEST AND REAP SIGNIFICANT TAX BENEFITS

If: Your client intends to provide for charities in an estate plan and owns an IRA or other qualified retirement plan …

Then: By naming a fund at the SRCCF as the beneficiary of a qualified retirement plan, your client achieves extremely tax-efficient results. Not only is estate tax avoided on the retirement plan assets flowing to the charitable fund, but income tax is also avoided. Indeed, the income tax hit on retirement proceeds left to heirs can be steep.

The bottom line here is this:

If you encounter any situation with a client where charitable giving could be involved …

Then please reach out! Most of the time, we can offer a solution that meets both the client's tax and estate planning goals and the client's objectives for supporting their favorite charities. At the very least, we can point you in the right direction.

STARVED ROCK COUNTRY COMMUNITY FOUNDATION

Connecting People Who Care With Causes That Matter

241 Marquette Street,
LaSalle, IL 61301

815-252-2906

www.srccf.org

info@srccf.org

The team at the 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.

THANK YOU FOR THE OPPORTUNITY TO WORK TOGETHER!

Starved Rock Country
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