Professional Advisor Newsletter
January 2022

We're ready for a fresh start. How about you?

Alas, it's still not clear what might happen with tax reform given the fluid status of the Build Back Better Act. But that doesn't mean we can't begin 2022 with enthusiasm for helping philanthropic individuals and families achieve their goals for improving the quality of life in our region. Indeed, according to a 2021 Harris Insights & Analytics survey, 60% of Americans are expecting their taxes to go up in the next four years. And most of them are looking for ways to minimize taxes now, rather than waiting for retirement.

With that in mind, we're kicking off our newsletter series this year with topics that will help you more easily start conversations with your clients about their philanthropic plans by raising the issue not in a vacuum, but within the context of their families, their businesses, and a charitable giving marketplace that continues to deliver twists and turns such as cryptocurrency and NFTs.

Thank you for allowing us to help you serve your clients. We are honored, and we're sending our best wishes for a happy, healthy, and productive year for you, your clients, and the community we all love.

(This newsletter is also available at https://cfgrundycounty.com/professional-advisor-newsletter/ so that you can access all of the live links)

–Julie Buck, CAP®
Executive Director

Philanthropy and the family business: Ripe for great questions

More than half of the country's GDP is generated by the 5.5 million family-owned businesses in the United States. Profits aren't the only priority for most family businesses; indeed, the vast majority of family business owners report that other factors, such as culture, community, charity, and values, are also important to the business. Although it is not surprising that philanthropy is a vital part of the family business fabric, setting up the right structure to leave a legacy is not a cakewalk. As you advise a business-owner client, consider sharing questions that might help your client create or grow an effective corporate philanthropy program within the family enterprise.

Getting organized

Does the company have a strategy or system for prioritizing sponsorship requests, charity event invitations, and requests for donations? Is the strategy based on the owners' values, along with employee input? What is the communication strategy for maintaining positive relations with the charities whose requests the company turns down? How are requests from employees handled? Could a corporate donor-advised fund at the community foundation help streamline administrative load? Is there a corporate foundation in place and if so could it be streamlined into a corporate donor-advised fund to save administration hassles and better leverage tax strategies?

Getting employees engaged

If the company has a community engagement program, how popular is it? For example, is there a matching gifts program and is that program being utilized as expected? Are employees eager to attend community events to sit at the company's tables, or is it sometimes hard to fill seats? Are there opportunities for employees to volunteer together at local nonprofits? Has the company surveyed employees to learn about their favorite causes and the ways they prefer to give back (*e.g.*, donate money, volunteer, serve on boards)?

Getting the word out

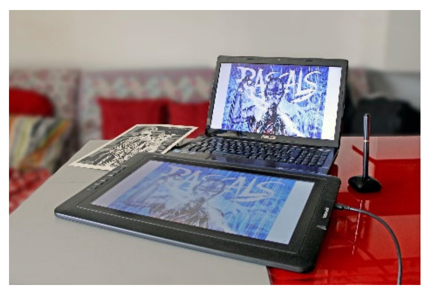
How is the company letting employees and other stakeholders know about its community commitments? Is it a priority to share civic engagement with the outside world, such as through a page on the company's website, or is the company's approach to stay under the radar? Do the employee handbook and recruiting materials describe community engagement opportunities for employees?

Helping your clients ask the right questions can make a big difference in the success of their corporate philanthropy programs.

Related, and importantly, it is wise to remind your clients that the sale of a closely-held business creates strong opportunities for tax-savvy charitable giving–and that it is critical for the business owner to plan ahead.

As always, the team at the community foundation is here to help you serve your family business clients by setting up a corporate donor-advised fund, assisting with a matching gifts program, creating donor-advised funds for employees, collaborating on a philanthropic component of a business sale, and much, much more.

Giving hard-to-value assets: It’s not just for real estate anymore



You are no doubt familiar with the many benefits of giving hard-to-value assets to a charity–and especially to a client’s donor-advised fund at the community foundation. Because the community foundation is a public charity, your client is eligible for the maximum allowable tax deduction for their contributions. This is because a client typically can deduct the fair market value of the asset given to the fund, and, furthermore, when the fund sells the asset, the community foundation (as a public charity) does not pay capital gains tax. This means there is more money in the donor-advised fund to support charities than there would be if your client had sold the hard-to-value asset on their own and then contributed the proceeds to the donor-advised fund.

Individuals can take advantage of giving hard-to-value assets, and so can businesses. For example, when a business is sold, its owners may find themselves with artwork, insurance policies, or real estate on their hands, any of which can be donated to a donor-advised fund with the favorable tax treatment described above. Gifts of real estate have long been popular (although still underutilized) gifts to charity, sometimes making up nearly 3% of the value of all charitable contributions in any given year.

And the universe is expanding! In 2021, gifts of novel non-cash assets made their mark as a viable way to fund donor-advised accounts and other charitable efforts. Cryptocurrency is one type of asset that clients are now giving to charities, which was to be expected given the rise in popularity of Bitcoin and other currencies. But advisors might not have expected to see NFT (non-fungible token) auctions result in more than $1 million in 2021 Giving Tuesday charitable donations processed by Giving Block.

Will NFTs be the next hard-to-value asset donation craze? That remains to be seen. In the meantime, though, the team at the community foundation is staying close to the trend. We can help your charitable clients make any type of gift by guiding you and your client through the gifting process and, in the case of crypto, collaborating with well-vetted intermediaries like Giving Block, so that your client's donor-advised fund at the community foundation can grow and support your client's favorite charities.

Notably, we will be watching closely as more information becomes available about the environmental cost of donating ephemeral assets because of the stress that mining and transferring Bitcoin and other cryptocurrencies place on the energy grid. The toll is so great, for example, that Greenpeace is backing away from accepting gifts of cryptocurrency. But if the $23 billion in NFT sales generated in 2021 (compared with less than $100 million in 2020) is any indication, philanthropy may see significant NFT activity in the years ahead.

Transfer of wealth: Following the money

"The greatest wealth transfer in modern history has begun," according to a mid-2021 report in the *Wall Street Journal*. And, with tax reform's big bite into estate values off the table, at least for now, many of your older clients may be thinking seriously about their legacies.

And these legacies will be significant. As of March 31, 2021, according to data collected by the Federal Reserve, Americans in their 70s and older had a total net worth reaching almost $35 trillion. By 2042, an estimated $70 trillion will change hands, including an estimated $9 trillion flowing to charities, according to research conducted by Cerulli Associates.

In 2021, the Alliance of Illinois Community Foundations commissioned an update of the Illinois Transfer of Wealth Study, originally conducted in 2007. The staggering figures of Grundy County wealth being transferred to the next generation can be found in this short, 4-minute video: https://youtu.be/YFCd0sBsFHE

As you advise an older client, an important part of the conversation will be to determine the best charitable giving vehicles to achieve your client's community goals, particularly evaluating the potential role of a donor-advised fund or private foundation. Increasingly, your clients are learning about their options in mainstream media and likely have a greater level of awareness about charitable giving options than ever before, especially in the wake of the recent twists and turns concerning potential tax reform.

Here are key points to keep handy for those conversations (as you pick up the phone to call the community foundation team!):

–A donor-advised fund (DAF) at the community foundation costs nothing to set up, and the annual administrative fee on DAFs at CFGC is 2%, which includes investment fees

–A donor-advised fund can be created quickly–within hours or even days. A private foundation, by contrast, requires establishing a legal entity through state and IRS filings.

–Donating hard-to-value assets to a donor-advised fund delivers better tax benefits (deduction of fair market value) than a gift of the same assets to a private foundation (deduction of cost basis).

–A client can deduct a greater portion of AGI (*e.g.*, cash deductible up to 60% of AGI) with a gift to a donor-advised fund than with a gift to a private foundation (*e.g.*, cash deductible up to 30% of AGI).

–Ongoing operations of a donor-advised fund through the community foundation are very easy, with no tax filings required. A rule of thumb is that a private foundation is not worth the aggravation for anything less than $10 million. Instead, set up a DAF at CFGC and forego all of the administrative tasks and headaches affiliated with private foundations.

–Sometimes, both a private foundation and a donor-advised fund are useful tools to meet a client's charitable giving goals. The team at the community foundation team can help you develop a structure for your client that maximizes the benefits of each vehicle within an overall philanthropy strategy.

--Next, consider encouraging your clients to make charitable giving part of “living large” in their golden years, especially in light of an emerging trend that some retirees are spending their money instead of giving it away.

--Finally, remind your clients that the best time to set up their philanthropic plans really is right now. By being proactive, your client has nothing to lose and everything to gain in ensuring that their charitable wishes are carried out. To that end, the community foundation regularly works with advisors helping clients who wish to establish “shell funds” to receive bequests after the clients pass away. A shell fund allows a client to describe charitable intentions, including naming advisors and suggesting nonprofits to receive fund distributions, to guide the heirs through the client’s charitable legacy. Your client can name the fund, and even provide that the community foundation’s board of trustees work with advisors to make grants and evaluate impact. A shell fund agreement can be modified anytime before your client’s death.

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.

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