Professional Advisor Newsletter
March 2022

Greetings!

We hope your practice is thriving even as current events continue to present challenges for so many people. No doubt, your clients are relying on you more than ever to help them weather the storms of inflation, financial markets impacted by global unrest, and the looming potential of changes to tax laws.

As is so often the case during periods of volatility, philanthropy can be a calming force. In that regard, the team at the community foundation is particularly interested in the latest research on the importance of meaningful relationships between advisors and their clients, and we strive to help you create those strong bonds of loyalty.

In particular, we are struck by the results of a study recently published in the Journal of Financial Planning, which illuminated the disconnect between how advisors perceive their effectiveness versus how their clients actually rate it. Related to charitable giving, for example, 68% of financial planners said they made an effort to gather information about their clients' cultural values, but only 41% of clients agreed.

Philanthropy, and partnering with the community foundation, can help you close that gap. Charitable giving is a natural and easy way to start a conversation with clients about their values and what's important to them in their estate plans and financial plans beyond just dotting the i's and crossing the t's.

With that in mind, we're focusing this issue on topics that may help you start even more meaningful conversations with clients as we navigate the rollercoaster of 2022's first quarter. Thank you for the opportunity to work together. We are grateful.

(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

Winds of change and headwinds: Legislation and inflation

You've no doubt noticed that donor-advised funds have been featured more prominently over the last few weeks in financial and wealth management publications. That's in part because the Accelerating Charitable Efforts Act was reintroduced in the House of Representatives on February 3, 2022. The legislation contains the same proposed law changes as the bill introduced in the Senate in July 2021, which stalled.

Portions of the bill are designed to address concerns that donor-advised funds are not required to make distributions to charities according to any timeframe or monetary level. The ACE Act proposes to create four new categories of donor-advised funds, each with different tax consequences to the donor.

Donor-advised funds are excellent charitable planning tools for many situations, including for individuals and families who want to organize a regular stream of giving to community organizations and unlock illiquid assets to do so. Indeed, the proposed legislation recognizes special categories of donor-advised funds established at community foundations, referred to as Qualified Community Foundation Donor Advised Funds, which are treated favorably for tax deduction purposes.

We're tracking closely the various conversations surrounding this proposed legislation, including a proposal by some community foundations that calls for a five percent aggregate minimum payout and other measures to address concerns while also maintaining the characteristics of donor-advised funds that motivate more charitable giving overall, especially as Millennials catch on to this particular vehicle to fund their charitable priorities.

As with any proposed legislation, no one can predict whether or when new laws impacting donor-advised funds will be enacted, and if they are, what parts of the proposed legislation will be included in the version that becomes law. What we can tell you, though, is that we are watching this legislation very carefully via (especially) our membership in the Council on Foundations just as we do with any proposed legislation that could significantly impact your clients' charitable giving strategies. You will hear from us if changes are enacted. In the meantime, please reach out with questions.

Potential legislative changes aren't the only choppy waters as 2022 gets into full swing. Charities are impacted by inflation, and your clients may wish to take that into account in their charitable giving plans for 2022. Certainly as your clients' purchasing power dips, so does their ability to make charitable contributions. But, it's possible that the charities your clients love to support are feeling the sting to an even greater degree. This might sway your clients toward maintaining–or even increasing–their historical charitable giving budgets and perhaps even adjusting those budgets for inflation. Be mindful, though, that even the possibility of inflation can have a significant psychological effect on your clients, impacting everything from their confidence as consumers to attitudes toward (and longing for??) Girl Scout Cookies.

The team at the community foundation has decades of experience working with advisors and donors through economic ups and downs. We're happy to be a sounding board as your clients evaluate whether and how to adjust their charitable giving in 2022, especially in cases where establishing a fund at the community foundation can help achieve both a client's and a charity's objectives.

Closely-held business interests: Adventuresome giving

The number of businesses in the United States totals more than 27 million, but only a tiny fraction of those are publicly traded. Even so, your clients still have plenty of opportunities to give highly-appreciated marketable securities to fund their charitable endeavors. With the millions of closely-held businesses that aren't publicly-traded, though, many of your clients may have an untapped opportunity to give corporate interests, especially considering that private equity fundraising continues to soar.

As you talk with your clients about giving LLC and partnership interests, keep in mind that complex tax and legal rules may apply. For example, the operating agreement or partnership agreement will indicate whether interests can be gifted to charity in the first place. Another consideration in the case of an LLC is whether the entity is taxed as a partnership. Finally, if the interests are given to a public charity, such as a fund at the community foundation, in general, the contribution is deductible up to the fair market value of the gifted property (minus reductions for certain components that may include liabilities, short-term capital gain, and ordinary income).

Please contact the team at the community foundation to explore ways your clients can fund their charitable giving strategies through gifts of closely-held business interests. We'd love to help!

Crypto and CRTs: Buried treasure, or hidden pitfalls?

"For federal tax purposes, virtual currency is treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency."

That’s a key phrase in IRS Notice 2014-21, where the Internal Revenue Service outlined its position on the tax treatment of the disposition of cryptocurrency. In other words, a taxpayer’s disposition of cryptocurrency will generally be treated as triggering a gain or a loss.

With this core principle at its foundation, taxpayers have been using cryptocurrency to fund their charitable goals, including establishing charitable remainder trusts with gifts of bitcoin and other cryptocurrencies. While this is certainly a strategy worth exploring for some of your clients, beware that the IRS’s commitment to increased enforcement, coupled with the purported widespread underreporting of cryptocurrency-related income and corresponding tax revenue losses, clients should proceed with caution. The IRS has even launched a special initiative to audit crypto reporting and catch fraud, calling the effort Operation Hidden Treasure.

As always, keep in mind the old saying that a client “should not give away a dollar to save 50 cents.” As is the case with any legal structure that results in tax consequences, there are pros and cons, *ie*.,“charms and dangers.” Think of a charitable remainder trust–including one funded with cryptocurrency–as a vehicle for helping clients support the charities they love, not simply a tax-planning tool. Viewed through that lens, clients will be pleased that a charitable remainder trust not only provides them with an income stream, but also can offer flexibility in the ways they provide for their intended charitable beneficiaries, especially when aligned with a fund at the community foundation that supports a client’s philanthropic goals.

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.

Community Foundation of Grundy County

520 W. Illinois Ave, Morris, IL 60450

815-941-0852

https://cfgrundycounty.com/

julie@cfgrundycounty.com