Professional Advisor Newsletter
November 2022

Hello from the community foundation, and happy November!

Thank you for the opportunity to work together as you serve your philanthropic clients. We are grateful for the many ways our team collaborates with attorneys, accountants, and financial advisors. Whether we are working together to structure a family's donor-advised fund, a gift of real estate, endowed support for a favorite nonprofit, or a Qualified Charitable Distribution to a designated fund at the community foundation, our team enjoys and appreciates every minute.

In this issue, we're covering two highly-requested topics:

- Outlining how to use donor-advised funds to help your clients continue giving to their favorite charities even when stocks are down.
- Reinforcing the importance of valuing gifts of hard-to-value assets to avoid running afoul of the IRS's stringent rules.

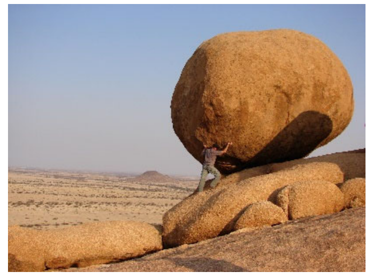
As always, we are here for you! Please call or email anytime with your charitable giving questions. More often than not, the team at the community foundation can help your clients. If we're not a fit, we are happy to point you in the right direction. We love serving as your first stop for all things philanthropy.

Wishing you and your family all the best for the Thanksgiving holiday,

(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

Strong year-end giving in a bear market: Donor-advised funds come in handy



Giving appreciated stock to charitable organizations is certainly a highly-effective tax strategy. During years when highly-appreciated stock is in short supply, however, implementing this strategy may be easier said than done.

This is when donor-advised funds come in especially handy. Now is the time to discuss charitable giving with those clients who regularly added to their donor-advised funds throughout the market's long bull run. If these clients intend to ride out today's market conditions in their personal portfolios, this year's bear market doesn't mean the clients' year-end charitable giving has to take a hit. These clients can use their donor-advised funds to support their favorite organizations, sometimes even at levels consistent with prior years.

Similarly, for some clients, this may be a year to consider contributing cash to a donor-advised fund instead of donating highly-appreciated stock (which has been the go-to gift for so many of the last several years). Gifts of cash could reduce the burden on a client's personal stock positions that may have fallen in value dramatically, giving these positions more time to recover value and, at some point in the future, be contributed to a donor-advised fund at a higher value (thereby resulting in a higher tax deduction for the client).

Now may also be a good time for clients to consider using their cryptocurrency in creative ways to meet their charitable giving goals. Clients holding cryptocurrency may have come to the conclusion that it does not necessarily provide the protection against inflation they thought it would. A client could, for instance, sell their cryptocurrency at a loss and contribute the cash to their donor-advised fund. Then, the client can keep an eye on the cryptocurrency market and decide when–or whether–to wade back in.

Finally, consider encouraging your clients who've not yet established donor-advised funds at the community foundation to consider doing so now. Not only does a donor-advised fund make charitable giving efficient, but over the long term it can also protect a client's ability to support favorite charitable organizations even when market conditions are rough.

The team at the community foundation is always happy to help your clients maximize both the philanthropic and financial elements of their charitable giving strategies. We look forward to hearing from you.

Adopt a "donor beware" attitude when clients make non-marketable gifts

Market declines and inflation have made 2022 a more challenging year for some clients to fulfill their traditional giving objectives or early-year gifting intentions.

With annual inflation hovering at 8% (and no relief in sight) and liquidity perhaps less than ideal, cash may be hard for donors to part with. Giving stock may also be hard to swallow, at least psychologically, in a down market. For example, assume shares of a client's stock have dropped 15% over the last quarter, from $200 per share to $170. If the client has been intending to make a $10,000 gift to charity this year, last quarter the client could have accomplished that with a gift of 50 shares. Now, though, the client will need to give nearly 59 shares to hit that $10,000 target. Realizing that it will "take more shares to do the same good," your clients may be less inclined to give depreciated stock shares to their donor-advised funds and other charitable recipients.

So, with money tight and stock perhaps painful to give, your clients may be considering alternatives to cash or securities for their gifts to charity. You and your clients need to be aware of the rules—meaning the IRS's rules—to both meet the clients' objectives and stay in Uncle Sam's good graces.

A high-level understanding starts with the $5,000 threshold for documentation that appears on IRS Form 8283, titled Noncash Charitable Contributions. This form is required to be filed with any tax return claiming such a deduction.

Substantiation of value up to $5,000 is routine and consistent with securities (*i.e.*, acquisition and contribution dates, fair market value of the item(s) and method of value determination). Requirements for gifts up to $500 are less stringent.

Real estate, closely-held stock, art, jewelry, vehicles or baseball card collections, for example, valued at $5,000 or greater require more specifics. They're also subject to greater scrutiny if the donor is audited or questioned.

Consider the additional documentation requirements:

- From the donor (your client): the type of gift, description, physical location, and a third-party appraisal of value.
- From the appraiser: a signed declaration on the tax form describing their qualifications and identification number; that they do this work regularly; and where they can be located.
- From the recipient (the charity, sometimes known as the "donee"): signed confirmation of qualification, receipt, federal identification number, and a commitment to document and notify if disposition occurs within three years. (The

community foundation is accustomed to filing this documentation for donors' gifts to funds.)

Your clients also need to know that meeting the requirements for declaring value rests with them and not their tax preparer, recipient organization, or appraiser. In the recent case of *Heinrich C. Schweizer v. Commissioner*, a donor/taxpayer was found liable for reimbursements and penalties related to a decade-old donation of art first valued at $600,000—later reduced by more than 50%—and exacerbated by the IRS's determination of participants' roles and responsibilities. Tax advisors continue to be reminded of the intricate requirements to substantiate hard-to-value gifts such as conservation easements, watching carefully to see how taxpayers can win valuation arguments with the IRS.

So while a high-value donation of real property to your client's donor-advised at the community foundation or a little-used auto to benefit a charity is admirable and relieves the pressure on making traditional cash or securities gifts, patrons should take a vigilant and "donor beware" approach to alternative gifting. While beauty is in the eye of the beholder, value and deductibility are determined by others.

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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