COMMUNITY GIVING FOUNDATION'S

PROFESSIONAL ADVISOR NEWSLETTER

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Trust in nonprofits, donor advised funds versus private foundations, and a quick refresher on charitable gift annuities.

Hello from the Community Giving Foundation! Our team is honored to work with attorneys, CPAs, and financial advisors as you help your clients achieve their charitable giving goals. Put us on speed dial—we want to be your first call when the agenda turns to philanthropy! As part of our service to you, the Foundation is committed to letting you know about trends and developments that may impact your clients' charitable giving strategies. Here are three topics that are popping up frequently in our conversations:

- Trust is a key part of your client relationships, and the team at the Foundation feels the same way about our relationship with you, your clients, our region's nonprofits, and the community we serve. Learn more about why the Foundation is such a **trusted source** for all things charitable giving.

- Deciding whether a **private foundation or a donor advised fund** is the best vehicle for your client can be challenging, especially if the client walks in the door with preconceived notions. A donor advised fund at the Foundation may be more flexible and effective than you assume and often is the ideal tool to achieve clients' tax and charitable giving goals.

- You may not run across **charitable gift annuities** (CGAs) very often, but when you do, it's good to know the basics. We've put together a few quick pointers as a refresher course on how a CGA works and when it might be a good fit.

Please reach out anytime you're dealing with a client matter related to charitable giving. We can almost always provide a solution, and if we can't, we will recommend the best next steps for you and your client.

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Trust matters: Your clients' go-to resource for community impact.

You know very well that trust is a key part of your relationships with clients. Your clients are seeking a similar level of trust with the people and organizations that are helping carry out their philanthropic wishes.

Fortunately, trust in charities has shown an increase after a recent dip. According to the 2024 Edelman Trust Barometer and the Independent Sector's "Trust in Nonprofits and Philanthropy" report, trust in nonprofits rebounded by 5 points to 57% in 2024, following a four-year decline. This increase positions nonprofits as the most trusted sector compared to government, business, and media. Still, nonprofits face challenges and concerns about maintaining this trust, including general skepticism about institutions, as well as increasing expectations that charities demonstrate transparency and accountability.

As you work with your charitable clients, keep in mind that the Foundation can help bolster clients' trust in their favorite charities. Here's how:

Trustworthy information about particular charities. The Foundation is a valuable source for objective, timely information about specific charities and the impact of particular programs. By working with the Foundation, your clients can leverage a transparent and trustworthy avenue for learning about how best to make a difference for their favorite causes.

Wide-ranging expertise about community needs. At its core, the Foundation is committed to achieving impact. This means that our team keeps a finger on the pulse of local needs, whether related to social services, health care, education, the environment, the arts, community development, or any other community priority. With a deep understanding about community needs, the Foundation team can be an excellent sounding board for your clients who want to learn which charities are addressing each need and how those charities are measuring results.

Broad set of tools for structuring charitable gifts. The Foundation can help establish a tax-efficient structure to achieve each client's goals for community impact. Available vehicles include not only donor advised funds, but also other types of funds such as designated funds to support specific charities and field of interest funds to address particular causes, as well as multi-generational funds to involve clients' children and grandchildren. The Foundation offers your clients a flexible and effective way to manage charitable giving by simplifying their giving processes and maximizing potential tax benefits.

As always, we want to be your first call! Please reach out to the Foundation team anytime the topic of charitable giving comes up during a client conversation.

Weighing the options: Private foundation or donor advised fund?

When you're working on the charitable components of a client's estate or financial plan, one of the first areas you'll likely explore is the structure. Certainly, you are familiar with both private foundations and donor advised funds as useful charitable giving tools. Before you jump into one or the other for a particular client, though, it's important to review the similarities and differences between the two so that you can best achieve your client's goals.

To help you evaluate a client's options, here are three common myths about the differences between private foundations and donor advised funds.

Myth #1: Donor advised funds are all the same and only private foundations can be customized.

Private foundations will always differ from donor advised funds in important ways, not only because of their status as separate legal entities and the deductibility rules for gifts to these entities, but also because of the opportunities to customize governance. But it is a mistake to assume that a donor advised fund is a cookie-cutter vehicle. Indeed, "donor advised fund" is simply a term used to describe the structure of a fund and its relationship with a sponsoring organization such as Community Giving Foundation. The donor advised fund vehicle itself is extremely flexible. Here's why:

- Donor advised funds are popular because they allow your client to make a tax-deductible transfer of cash or marketable securities that is immediately eligible for a charitable deduction. Then, your client can recommend gifts to favorite charities from the fund when the time is right.
- A donor advised fund at the Foundation is frequently a more effective choice than a donor advised fund offered through a financial institution. That's because at the Foundation, your client is part of a community of giving and has opportunities to collaborate with other donors who share similar interests. Plus, the Foundation is itself local and is deeply knowledgeable about the needs of our region and the nonprofits meeting those needs.
- The Foundation can work with you and your client to build a charitable giving plan that extends for multiple future generations. That is because the team at the Foundation supports your clients in strategic grantmaking, family philanthropy, and opportunities to learn about local issues and nonprofits making a difference.

Myth #2: Deciding whether to establish a donor advised fund or a private foundation mostly depends on size.

The size of a donor advised fund, like the size of a private foundation, is unlimited. The United States' largest private foundations are valued well into the billions of dollars. Information about private foundations, ironically, is not so private. The Internal Revenue Service provides public access to private foundations' Form 990 tax returns. That is not the case for individual donor advised funds.

Similarly, donor advised funds are not subject to an upper limit. Although information on the asset size of individual donor advised funds is not publicly available, anecdotal information indicates that some donor advised funds' assets may total in the billions of dollars.

Indeed, a donor advised fund of any size can be an effective alternative to a private foundation, thanks to fewer expenses to establish and maintain, maximum tax benefits (higher deductibility limitations and fair market valuation for contributing hard-to-value assets), no excise taxes, and confidentiality (including the ability to grant anonymously to charities).

The net-net here is that the decision of whether to establish a donor advised fund or a private foundation—or both—is much less a function of size than it is other factors that are tied more closely to the objectives a client is trying to achieve.

Myth #3: Donor advised funds and private foundations are mutually exclusive.

Make sure you're aware of the benefits of using both a donor advised fund and a private foundation to accomplish clients' charitable goals. For example:

- Donor advised funds can help meet the need for anonymity in certain grants, which is typically difficult using a private foundation on its own.
- A donor advised fund can receive a client's gifts of highly-appreciated, nonmarketable assets such as closely-held stock and real estate, and benefit from favorable tax deduction rules not available for gifts to a private foundation.
- An integrated donor advised fund and private foundation approach can help a client balance and diversify investment and distribution strategies to ensure that giving to important causes remains steady even in market downturns.

Some private foundations are even considering transferring their assets to a donor advised fund at the Foundation to carry on its mission. Terminating a private foundation and consolidating giving through a donor advised fund is sometimes the best alternative for a client when the day-to-day management and administration of the private foundation has become more time-consuming than expected and is taking time and focus away from nonprofits, the community, and making grants.

Along these lines, some families find that the tax rules related to investments, distributions, and "self-dealing" have become harder to navigate and are perhaps even preventing the family from maximizing tax benefits of charitable giving. Finally, the administrative load of managing a private foundation sometimes becomes overwhelming, especially if the family members who handled these functions initially have retired, passed away, or simply become busy with other projects.

The bottom line here is that we encourage you to reach out to the team at the Foundation anytime you are evaluating how to structure a charitable giving plan to achieve both your client's charitable and financial goals. Our team is here to help. In many cases, the Foundation's tools and services are a great fit for your client's needs. If not, we will point you in the right direction.

Refresher course: Charitable gift annuities.

Several advisors have shared with us recently that they're fielding more questions about charitable gift annuities (CGAs). It's quite possible that CGAs are landing on clients' radars these days for a couple of reasons:

A $54,000 opportunity. Word is finally getting out about the availability of a one-time Qualified Charitable Distribution transfer via a "split-interest gift" such as a CGA or a charitable remainder trust (CRT) under the "Legacy IRA" provisions enacted a couple of years ago. Adjusted for inflation, the ceiling for 2025 is $54,000. Because the law effectively mandates that the CGA or CRT be created solely for the purpose of receiving a QCD, your clients may gravitate toward the CGA, which is less complicated than going through the process of creating a relatively small CRT.

Payout rates are still high. Current charitable gift annuity payout rates, as suggested by the American Council on Gift Annuities (ACGA), are generally higher than in previous years. Rates were increased in January 2024 and remain in effect for 2025. With the status of interest rates unpredictable as 2026 approaches, some clients may want to take advantage of a CGA this year.

So, what do you need to know about how and why a charitable gift annuity can be an effective planning tool for some clients? Here are the basics:

- Through a charitable gift annuity, your client makes a transfer of assets to a charitable organization and in return receives a lifetime income stream and a partial tax deduction.
- When the client dies, the remaining funds are retained by the charity.
- The charitable donation portion of the transaction is calculated based on Internal Revenue Service rules for determining the amount of the contribution that is in excess of the present value of the annuity (these are the rates that are relatively high right now).
- Your client can fund a charitable gift annuity with a variety of assets, including marketable securities and cash.
- Actuarial calculations are used to establish the payout amounts, paid in equal installment payments that are considered a partial tax-free return of the client's original gift.
- Generally, a large residual flows to the charity after the client's death.
- The charity's own assets, not just the donated assets themselves, back the annuity payouts. Because of this dynamic, charitable gift annuities are regulated by most states to ensure that the charity has enough reserves to meet obligations.

Please reach out to the Foundation team when a client asks about charitable gift annuities or any other type of charitable gift. Keeping up with the rules and regulations for charitable gifts of all kinds is one of the many ways our team is here to help you serve your charitable clients. We're honored to be your first call on all things philanthropy!

The team at the Community Giving 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. Learn more at csgiving.org/professional-advisors. This newsletter is provided for informational purposes only. It is not intended as legal, accounting, or financial planning advice.

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The Community Giving Foundation is a 501(c)(3) organization that develops, manages, and distributes funds for charitable purposes in communities across the Central Susquehanna region of Pennsylvania.

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