COMMUNITY GIVING FOUNDATION'S

PROFESSIONAL ADVISOR NEWSLETTER

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CRTs, transfering a private foundation, and staying the course in uncertain times.

Hello from the Community Giving Foundation! We appreciate the opportunity to work with you and so many other attorneys, CPAs, and financial advisors as you assist your clients with their estate, tax, and charitable planning needs. Your partnership is especially important in today's economic climate as the need for philanthropic support becomes more critical than ever to sustain and improve the quality of life in our region. That's certainly the spirit we intend to capture in our latest updates:

- A charitable remainder trust (CRT) is a popular planning vehicle because your client is eligible for an up-front income tax deduction, a go-forward income stream, and deferral of capital gains taxes. The Foundation is happy to share a rundown of the **what, where, who, why, when, and how of CRTs**.

- As you work with a client who has established a private foundation, consider that at some point it might make sense to transfer all or a portion of the **private foundation's assets to a donor advised fund** at the Community Giving Foundation. Our checklist for making a move is worth a skim to remind you of the many benefits.

- Keep in mind that **charitable giving is important** to your clients even during times of economic upheaval. Your clients will still want to give to their favorite charities, so keeping an eye on evolving tax policy is crucial. The Foundation is here to help you take both a short-term and long-term approach to making an impact in our region.

As always, we're honored to be your first call whenever the topic of charitable giving arises. Our goal is to help your clients make a difference, and we are here for you, your clients, and our community. Please reach out anytime!

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Charitable remainder trusts: What, where, who, why, when, and how?

If you've represented charitable families over the years, you've certainly heard the term "charitable remainder trust", sometimes called a CRT. You might have even helped clients set them up. For most attorneys, CPAs, and financial advisors, CRTs don't come along every day. Because a CRT can be such an effective planning tool in certain situations, it's useful to have a basic knowledge of how they work. Here are six important points to keep in mind.

(1) What is it? Your client establishes a CRT as a standalone trust. The trust pays an income stream to the client (and potentially other beneficiaries such as a spouse or children) for life or for a period of years. According to the trust's terms, whatever assets are left when the income stream ends will pass to a charity, such as your client's fund at the Community Giving Foundation.

(2) Where does the charitable deduction figure in? Because the transfer of assets to the CRT is irrevocable, your client is eligible for an up-front charitable income tax deduction in the amount of the present value of the charity's future interest, calculated according to IRS-prescribed rules and interest rates. Remember also that assets held in a CRT are excluded from your client's estate for estate tax purposes.

(3) Who is it for? The ideal candidate to establish a CRT is typically someone who owns highly appreciated assets, including marketable securities, real estate, or closely-held business interests. That's because a CRT allows these assets to be sold within the trust without triggering immediate capital gains taxes, enabling the proceeds to be reinvested.

(4) Why are some trusts called CRATs and CRUTs? A "charitable remainder annuity trust" (CRAT) is a type of CRT that distributes a fixed dollar amount each year to the income beneficiary. Your client cannot make additional contributions to a CRAT. A "charitable remainder unitrust" (CRUT), on the other hand, is a type of CRT that distributes a fixed percentage (at least 5%) annually based on the balance of the trust assets (revalued every year). Your client can make additional contributions to a CRUT during lifetime.

(5) When is a CGA a better fit? The tax laws permit a client over the age of 70 ½ to make a once-per-lifetime transfer from an IRA of up to $54,000 (2025 limit) to a CRT or other split-interest vehicle, such as a charitable gift annuity (CGA). This is sometimes called a "Legacy IRA". Because the cost of setting up a CRT usually means that a $54,000 CRT is impractical, a client who wants to leverage the Legacy IRA opportunity may lean towards a CGA instead.

(6) How can I learn more? As is the case with any question you encounter from a client about charitable giving techniques, the Foundation is honored to be your first call. We can help you navigate the options and identify strategies that are likely to best meet a client's needs.

A happier alternative? Moving from a private foundation to a donor advised fund.

The number of private foundations in the United States is nearing 150,000 with combined assets topping $1 trillion, so it's no wonder that a lot of people immediately think about establishing a private foundation when they begin to explore structuring their charitable giving activities. You're likely working with several clients who've established private foundations somewhere along the way.

Recently, though, the growth of donor advised funds to nearly 2 million in number—with grants from these vehicles reaching $50 billion in some years—signals that many people are starting to use both a donor advised fund and a private foundation. Some of your clients may even be considering transferring a private foundation's assets to a donor advised fund at the Community Giving Foundation to carry out the family's mission. This particular trend is on the rise, so take a moment to skim this checklist to help guide conversations.

"Realty check" the hassle. Day-to-day management and administration of a private foundation can become time-consuming, especially as the responsibilities fall to second- and third-generation family members. Even the first generation may realize at some point that administrative work is taking too much focus away from nonprofits, the community, and making grants.

Review the tax rules. The IRS's rules related to investments, distributions, and "self-dealing" are complex. Over time, family members may become frustrated navigating the potholes of tax compliance. For instance, if a client plans to transfer all or part of a family business, now or in the future, it is critically important to communicate the benefits of using a donor advised fund at the Foundation versus transferring the business interests to a private foundation (which can be disastrous from a tax standpoint).

Lean on the Community Giving Foundation. Our team is happy to walk alongside you and your client through the steps to terminate a private foundation and move the assets to a donor advised fund at the Foundation. The first step is for the board of the private foundation to approve the termination and capture that approval in meeting minutes or a consent of directors.

Set up a donor advised fund. Your client can establish a donor advised fund at the Community Giving Foundation and choose the name (e.g., Smith Family Foundation Fund). Similarly, selection and succession of fund advisors (who will handle grantmaking) can mirror the private foundation's board structure. As a result, the donor advised fund will look and operate a lot like the private foundation.

Make a grant. The private foundation will distribute ("grant") most of its net assets to the newly-established donor advised fund. The private foundation will need to be sure it pays all of its liabilities and expenses before accounts are closed, so your clients will want to leave a reserve in the private foundation to cover final bills before completing the termination.

Finalize the termination. As long as the private foundation corporate entity is in good standing according to state laws, termination for tax purposes will be automatic and smooth because assets were transferred to the Community Giving Foundation, a longstanding organization. The private foundation will then simply file an informational tax return with the Internal Revenue Service for its final year (even if it is a short tax year). The final step is for the private foundation to take any steps required for termination under the laws of any and all states in which it was registered, especially if the private foundation was organized in corporate form.

Whether your client is ready to transfer a private foundation this year or is simply evaluating options, please give us a call. We're happy to help!

Philanthropy: It's a marathon, not a sprint.

As 2025 continues to deliver twists and turns, it's important to keep talking about philanthropy. Charitable giving is a vital strategy for your clients, even in times of economic uncertainty. Here are three trends to watch as you guide your clients through an unpredictable era and encourage them to look beyond the horizon.

Your clients still want to give. While overall giving may dip during economic downturns, most of your philanthropic clients will continue to support their favorite charities. Indeed, giving often rebounds quickly alongside economic recovery. Donor advised funds, in particular, have shown resilience and even growth during economic shocks, providing a stable source of support for nonprofits and a flexible tool for your clients. This support is crucial because economic upheaval often increases community need, which in turn creates more demand for nonprofits' services. Often, as was the case during the pandemic, donors rise to the occasion. By working with the Foundation, your clients can stay close to the tangible, local impact of their giving.

Legislation is still percolating. At the moment, key provisions of the Tax Cuts and Jobs Act (TCJA) are set to expire at the end of 2025, potentially impacting the charitable strategies you recommend to clients. Notably, though, on February 13, 2025, lawmakers in both the House and Senate introduced the Death Tax Repeal Act of 2025, aiming to permanently eliminate the federal estate tax and the federal generation-skipping transfer (GST) tax. Needless to say, if this act becomes law, the landscape of tax planning will change dramatically. On a happy note, under recently-proposed legislation, clients over the age of 70 ½ would be able to make Qualified Charitable Distributions to donor advised funds at the Foundation. Under current law, eligible fund recipients of QCDs are limited to designated, field of interest, unrestricted, and similar funds.

Focus on the future. Some of your clients may be wondering just how much they can truly accomplish through philanthropy, especially right now. The answer is a lot. Sometimes called "big bet philanthropy", strategies to leverage charitable dollars to tackle systemic social issues are becoming more popular. "Long-haul" initiatives require sustained commitment, collaboration, and capacity-building among both donors and the nonprofit organizations they support. Thanks to its mission to connect donors to community needs, the Foundation is in a unique position to work with your clients who want to pursue this form of charitable giving.

Please reach out to the Foundation anytime. Even during economic upheaval, charitable giving remains a powerful tool for tax planning and durable community impact. Thank you for your continued work to help your clients maximize their positive influence on our community.

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.

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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