Advisor Insights

News & Resources for Professional Advisors

Hello from the Community Foundation!

We hope the summer is treating you well.

As always, we appreciate the opportunity to work with you and your charitable clients.

This is the time of year when many clients are traveling and spending time with family, which means they may be having conversations about their favorite charities and the year's plans for giving to favorite charities.

To help you prepare for your clients' questions when they return after summer holidays and travels, in this issue we're sharing insights on a few topics that may be top of mind:

- AI is certainly a hot topic, even in discussions about philanthropy. We're offering three suggestions for client conversations about AI and charitable giving, whether your clients are investors, nonprofit board members, or just curious.

- IRAs are a fabulous source of charitable gifts, not only through beneficiary designations, but also via the popular QCD tool for clients 70 ½ and older. Make sure you're helping your philanthropic clients maximize their IRAs' potential through catch up contributions.

- Every year, the *Giving USA* report tells us about the state of charitable giving in America. 2022 numbers were down, although the total number is still inspiringly large. We're also keeping you up-to-date on the latest tax news surrounding NIL money, along with an article to help you brush up on why the philanthropy conversation is so valuable to your practice.

Reach out anytime! It's our pleasure to work with you as you help your clients achieve their charitable giving goals for this year and many years to come.

Happy summer!

Wayne County Community Foundation, ***Your*** Community Foundation

Advising clients about AI's impact on charitable giving

News about the capabilities of artificial intelligence has skyrocketed over the last few months. As attorneys, accountants, and financial advisors, no doubt you are watching these developments closely, both because of the potential legal issues involved and also because of the ways AI can enhance your work.

Here are three suggested discussion points when your clients ask how AI might impact their philanthropy plans:

- For clients who serve on boards of directors of nonprofits or work for a nonprofit, AI could mean significant advancements in fundraising capabilities. From research to communications, generative AI could help fundraisers get their work done, which would be a welcome development in a profession that has been under stress due to a shortage of professionals and a challenging fundraising environment.

- Some of your clients may be investing in AI companies. Pay close attention to this. While certainly not all AI ventures will make it, some AI startups will likely be very successful, creating huge financial gains for their shareholders. Talk with your clients about contributing shares of these companies to their Donor Advised or other Funds at the Community Foundation. Upon an eventual exit, the shares held by a Donor Advised Fund will not be subject to capital gains tax, allowing your client to support their favorite charities much more significantly than if the client waits to sell the shares and transfer the proceeds (minus the tax hit) to a charitable fund.

- While AI can certainly help your clients research their favorite charities, and similarly will also play a role in helping charities fundraise and carry out their missions, it's important to remember that right now, in AI's early stages, most AI results are still only as good as the prompts and instructions provided by humans. The key to getting the right answers is to ask the right questions, and sometimes asking the right questions is the hardest part.

As always, please reach out to the Community Foundation for help as you serve your charitable clients. Our team has deep, personal knowledge and experience in all areas of charitable giving, from tax deductibility rules, to planned giving techniques, to understanding the needs of our community and how your clients can make a difference in the causes they care about. We welcome the opportunity for human interaction as that becomes even more of a rarity!

How "catch-up" contributions can boost clients' giving

At the Community Foundation, we regularly work with legal, financial, and tax advisors like you to help clients reach their charitable goals.

As a professional who regularly works with charitable clients, you are no doubt well aware of the tremendous benefits to both clients and charities when a client names a charity, such as a fund at the Community Foundation, as the beneficiary of an IRA or other qualified retirement plan.

So how can you help a client plan ahead to maximize a bequest of retirement fund assets, as well as support increased giving during the client's lifetime?

A great way to do this is by encouraging clients to maximize their IRA contributions—for many reasons:

- Taxable income "suppression" in the year of the contribution.
- Tax-deferred growth until distribution—and now not required until age 73 of the account owner.
- Ease of changing a beneficiary designation to name the client's fund at the Community Foundation, which will remove the assets from the client's taxable estate at death and avoid income tax.
- With retirement plans flowing to charity, leaning into highly-appreciated stock and other property at stepped-up values to make bequests to family or others, effectively erasing the unrealized capital gains for the recipients.

Make sure your charitable clients don't overlook an important tool in retirement savings maximization (and ultimately charitable giving) known as the "catch-up" contribution. This is the "extra" money that retirement savers aged 50 or older can stash away into their retirement accounts—and into more than one account as applicable.

Advisors and clients might better think of this as a bonus opportunity rather than a "catch-up," especially if a client has been maximizing their retirement savings all along. Additionally, of course, the catch-up contribution allowance helps a client make up for years when retirement contributions fell short due to earnings or savings interruptions due to layoffs, caregiving, high-expense years or similar circumstances.

Thanks to the SECURE Act, catch-up contributions have created even more buzz about opportunities for retirement savings, especially as the rules are set to shift in 2024 and 2025. In any event, the effects can be impactful. For example, an extra $1,000 deposited annually from age 50 through 65 earning 6% on average could potentially deliver an extra $27,000 in retirement income at age 65.

From a charitable giving perspective, the greater the IRA balance, the more opportunity there is for a client to give later to a fund at the Community Foundation. What's more, higher IRA balances can motivate your clients to deploy a Qualified Charitable Distribution strategy, with its many benefits:

- Beginning at age 70 ½, your client can make Qualified Charitable Distributions (QCDs) up to $100,000 in 2023 ($200,000 for married couples) and indexed for inflation beginning in 2024.
- QCD assets can be distributed to a designated or field-of-interest fund at the Community Foundation or to another qualifying public charity.
- QCDs can count toward Required Minimum Distributions for clients who are required to take them.

All in all, IRAs are the most prolific retirement savings vehicle in the United States, accounting for nearly 33% of the $33 trillion of total retirement assets as of December 2022. But regardless of the retirement savings vehicle, contribution maximization—and aided by so-called catch-up contributions—is a winning strategy for wealth building, family gifting, and charitable giving.

Our reading selections

Giving is down, but the total amount-–nearly $500 billion—is still impressive
Just reported in June by *Giving USA* was a rare decline, 3.4%, in charitable giving by Americans in 2022. Though giving totaled nearly $500 billion, officials cited high inflation and the stock market's pullback as reasons for the decline from $516 billion of total giving in 2021. Despite households' financial pressures, 64% of giving came from individual donors. Dig into this compelling (and free!) infographic for a comprehensive look at the state of philanthropy in America.

NIL collectives: DOA?
NIL collectives have been all the rage in some higher education circles, but that may be changing. Contributions to these entities may not be tax-deductible after all, according to the IRS in a May 23, 2023 memo. This development serves as an excellent reminder that private benefit and charitable tax exemptions do not mix well.

Even more reasons to talk about philanthropy with your clients.
If philanthropy is not a regular topic of your client conversations, you may be missing out. Not only can it be an easy icebreaker, but also studies have documented strong organic client growth through such conversations. And as this article points out, the combination of client dissatisfaction, wealth transfer, and the affluence of future generations spells o-p-p-o-r-t-u-n-i-t-y for advisors.

The team at Wayne County 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.