Lincoln Community FOUNDATION

PROFESSIONAL ADVISORS NEWSLETTER

Q3 2024

Happy Summer from LCF!

Welcome to our new and approved advisor newsletter! We have revamped our design and refreshed our messaging to ensure we are providing the most relevant content and making the most of your time – and ours! You will now receive this communication quarterly rather than monthly, and we will continue to focus on timely topics as well as ideas that will engage and inspire your clients. As you peruse this edition, please let us know your thoughts!

What hasn't changed is our continuing goal to provide accurate, efficient information as you serve your charitably-inclined clients. It is our honor – and our mission – to help you develop charitable giving plans that meet your clients' philanthropic goals while also supporting the important tax and estate planning objectives you've established with them.

A big thank you to those of you who have taken us up on our invitation to talk charitable giving. What a privilege to talk with Lincoln attorneys, accountants and financial advisors to help set philanthropy in motion for your clients. Recent conversations are very much reflected in the three articles we're sharing in this issue.

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As client's **retirement accounts continue to grow**, so does the opportunity for clients (and the community) to benefit from careful and intentional charitable planning. LCF can help you serve clients who may be among the newly-minted "401k millionaires" as well as clients who crossed that threshold years ago.

Last November, the Treasury released **proposed regulations related to donor advised funds**. Although these proposed regulations are just that – proposed and not final – nevertheless, in recent weeks media coverage has gained momentum. LCF is on top of these issues, and we've even been at the forefront in providing input to the Treasury as they contemplate how best to balance the competing goals of the proposed regs.

Finally, if it feels like the topic of the **estate tax exemption sunset** is heating up, you're right! It's likely more and more of your clients are becoming aware of the potential change in the change to the exemption that is slated to occur at the end of 2025 unless legislation intervenes. We share the basics of how this change could affect your clients, including the ways charitable giving and LCF can fit into smart planning.

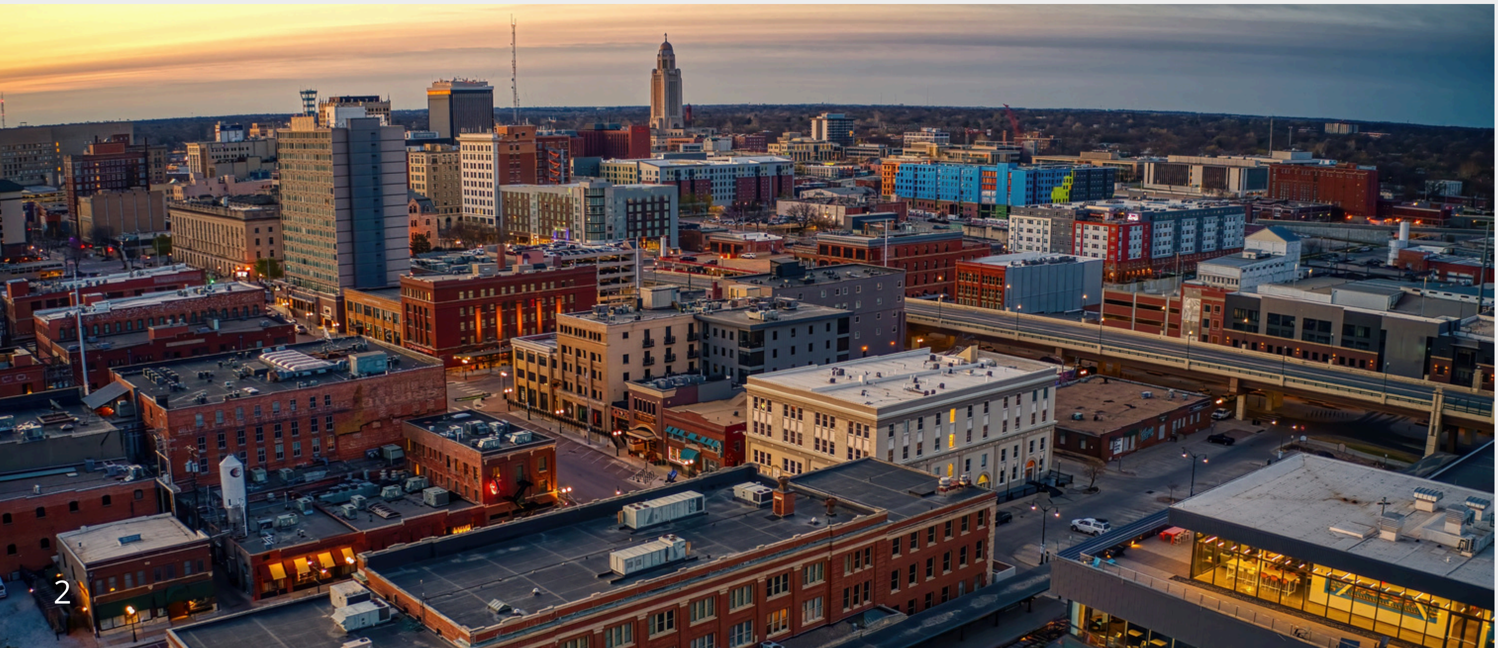
As always, thank you for the opportunity to work together! We appreciate so many of you reaching out with questions and insights from your practice, as well as the referrals of your clients. What a blessing! And don't forget about our upcoming Open House for advisors to swap summer stories and share our newly renovated office space. Please join us on Thursday, August 8 from 4-5:30 for a tour, along with appetizers and drinks. We can't wait to see you!

LCF Open House

Thursday, August 8

4 - 5:30 pm

Tour, Appetizers & Drinks!



ADVISING THE CHARITABLE MILLIONAIRE NEXT DOOR

At the end of 2024's first quarter, an estimated 485,000 Americans could count themselves among the so-called "401(k) millionaires," meaning the balance in their employer-sponsored retirement plans has reached the $1 million level. Thanks in part to stock market rallies during the first part of the year, that's a larger number than ever before. Many of these 401(k) accounts will be rolled over into IRAs after retirement, and the assets will continue to grow.

With so many of your charitably-inclined clients holding large sums of money in 401(k)s and IRAs, now is an important time for a brief refresher course on the benefits of deploying these accounts toward achieving clients' philanthropic goals. Indeed, although a charitable bequest of any type of property can help achieve a client's estate planning and legacy goals, **retirement accounts are especially powerful**. When your client names a public charity, such as a donor advised or other fund at the Lincoln Community Foundation, as the beneficiary of a traditional IRA or qualified employer retirement plan, your client achieves extremely tax-efficient results. Here's why:

–First, the client achieved tax benefits over time as the client contributed money to a traditional IRA or to an employer-sponsored plan. That's because contributions to certain retirement plans are what the IRS considers "pre-tax"; your client does not pay income tax on the money used to make those contributions (subject to annual limits).

–Second, assets in IRAs and qualified retirement plans grow tax free inside the plan. In other words, the client is not paying taxes on the income generated by those assets before distributions start in retirement years. This allows these accounts to grow rapidly.

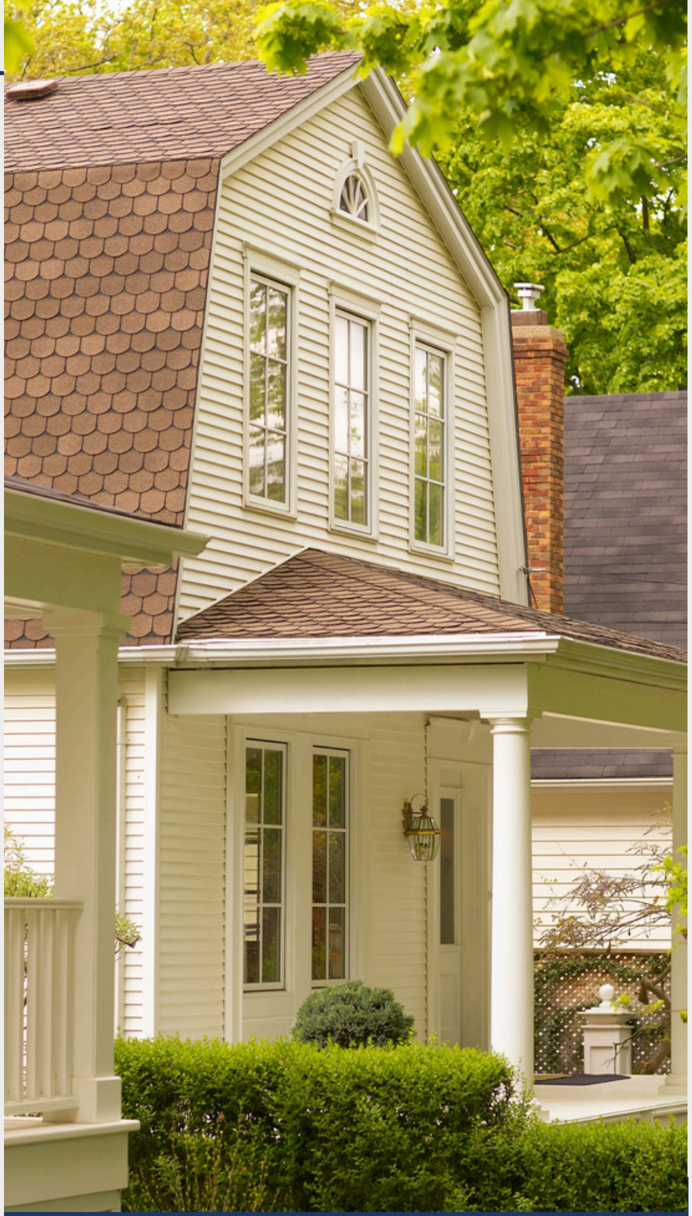
*"Indeed, although a charitable bequest of any type of property can help achieve a client's estate planning and legacy goals, **retirement accounts are especially powerful**."*

–Third, when a client leaves a traditional IRA or qualified plan to a fund at LCF or another charity upon death, the charity does not pay income taxes (or estate taxes) on those assets. By contrast, if the client were to name children as beneficiaries of an IRA, for example, those IRA distributions to the children are subject to income tax (and potentially estate tax), and that tax can be hefty given the tax treatment of inherited IRAs.

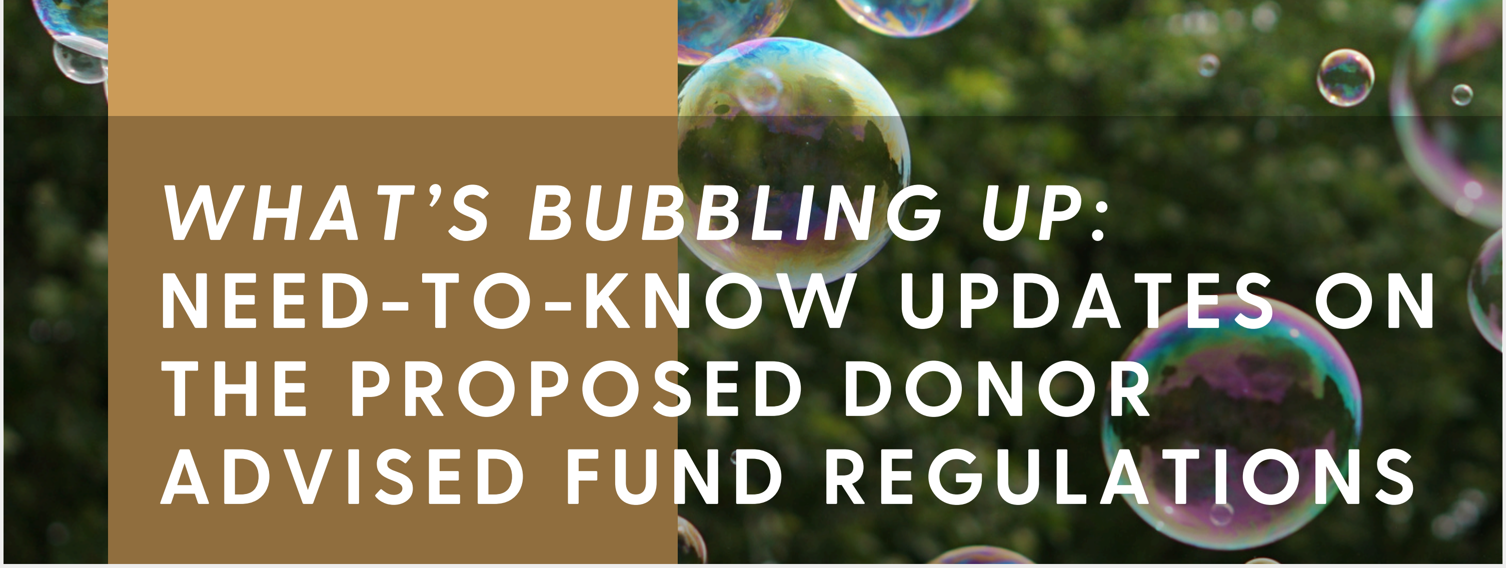
So, if your client is deciding how to dispose of stock and an IRA in an estate plan and intends to leave one to children and the other to charity, leaving the IRA to charity and the stock to children is a no-brainer. Remember, the client's stock owned outside of an IRA gets a "step-up in basis" when the client dies, which means that the children won't pay capital gains taxes on the pre-death appreciation of that asset when they sell it.

Speaking of savvy giving techniques using IRAs, a client who is 70 ½ or older can make tax-efficient gifts directly from an IRA to a qualified charity (including certain types of funds at the Lincoln Community Foundation), up to $105,000 per year! This is known as a "Qualified Charitable Distribution."

Lincoln Community FOUNDATION



The Philanthropy Services team at LCF is always happy to work with you to ensure your clients are maximizing their assets to fulfill their charitable giving goals, both during their lives and through legacy gifts. We look forward to the conversation!



WHAT'S BUBBLING UP: NEED-TO-KNOW UPDATES ON THE PROPOSED DONOR ADVISED FUND REGULATIONS

Lincoln Community Foundation is committed to providing timely updates on legal and policy developments to help you and other professionals who advise philanthropic clients stay on top of best practices in charitable planning. In that spirit, donor advised funds and the rules governing these vehicles are topics that are popping up more frequently in financial and even mainstream media. Our team is closely watching these regulatory developments.

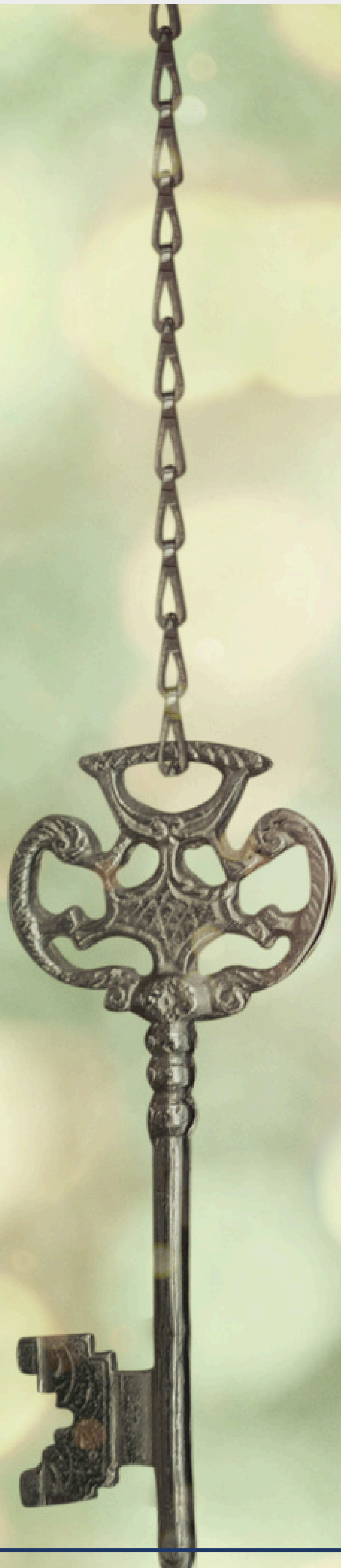
As background, in November, the Internal Revenue Service issued proposed regulations that would change the way donor-advised funds are defined and how they operate. Especially leading up to the May 6, 2024, public hearings, the proposed regulations have created quite a buzz. If you'd not yet heard about the proposed regulations, the April 19, 2024 letter to Treasury Secretary Janet Yellen, signed by 33 members of Ways and Means, might have grabbed your attention. The letter lays out concerns that "these regulations could have the unintended consequence of impeding charitable giving in our communities, particularly at our local community foundations." You'll hear from us when (and if) the proposed regulations, or some version thereof, go into effect and what to do about it.

As you track the issue, however, it's important to remember that a donor advised fund is just one of many types of funds your clients can establish at LCF. Consider:

- Certainly, the donor advised fund is popular because it allows your client to make a tax-deductible transfer of cash or marketable securities that is immediately eligible for a charitable deduction. Then, the client can recommend gifts to favorite charities from the fund to meet community needs as they emerge.
- Other types of funds at LCF can be just as effective as a donor advised fund depending on the client's objectives. In some situations, these other fund types are even more effective than a donor advised fund to achieve a client's goals.
- Field-of-interest funds and designated funds, for example, allow your client to support a charitable cause or organization they love. Unrestricted funds, such as our Lincoln Forever Funds, help your clients support future needs in Lincoln and Lancaster County that can't be predicted and can only be addressed through the Lincoln Community Foundation's perpetual structure and mission to serve the community as a whole.
- A major advantage of field-of-interest funds, designated funds, and unrestricted funds is that they are eligible recipients of the popular and tax-savvy planning tool called the Qualified Charitable Distribution, or "QCD," available to your clients who have reached age 70 ½.

We look forward to helping you serve your charitable clients regardless of where the proposed regulations ultimately land. And we'll keep you posted!

PLANNING FOR A SUNSET: LOCK IN A HIGHER EXEMPTION, UNLOCK A LEGACY



"Donor advised and/or endowed funds established at Lincoln Community Foundation are flexible and effective ways for your clients to accomplish their charitable goals and lower taxes by way of both lifetime and estate gifts."

Without additional action by Congress, our current estate tax laws will sunset at the end of 2025, resulting in a dramatically reduced federal estate tax exemption - from more than $13.6 million per person in 2024 to approximately $7 million in 2026 (this includes adjustments for inflation). This change would affect many high net-worth individuals and families, likely exposing many more estates to federal estate taxes.

Of course, it's impossible to predict whether Congress will enact legislation to prevent this sunset. Even so, advisors can prepare for client discussions and start considering estate planning strategies now, especially techniques that incorporate multi-generational gifts and charitable planning.

Indeed, for a client who is charitably-inclined, making larger lifetime gifts to charity and arranging for charitable bequests will help reduce the client's taxable estate because of the charitable estate and gift tax deduction. For example, donor advised and/or endowed funds established at Lincoln Community Foundation are flexible and effective ways for your clients to accomplish their charitable goals and lower taxes by way of both lifetime and estate gifts.

For some clients, you may wish to begin exploring a comprehensive, multi-generational wealth transfer plan, potentially using key tax-planning vehicles, such as:

Charitable lead trust

Charitable lead trusts (CLTs) may be particularly effective in the current environment. These trusts can provide income to your client's fund at LCF for a set time period, with the assets then passing to family members. Right now, the higher exemption amount allows for potentially significant initial funding of such trusts. This is because the value of the remainder interest counts toward the client's estate and gift tax exemption.

Generation-skipping trust

A generation-skipping trust is an irrevocable trust that can benefit a client's grandchildren and later generations. This trust utilizes a client's generation-skipping transfer (GST) tax exemption (which parallels the estate and gift tax exemption). This type of trust could allow a client to take advantage of the higher exemption before it potentially decreases in 2026. It is possible under some states' laws for these trusts to continue for many generations in a "dynasty" format, such that each generation benefits from the trust's income (and potentially principal for health and education) without the trust's assets being included in the beneficiaries' estates for tax purposes.

Multi-generational fund at LCF

Alongside a charitable lead trust or generation-skipping trust, or as a standalone, a client can establish a donor advised fund at LCF that can function much like a family foundation, with successive generations serving as advisors. Or the client may ask us to step in after the first or second generation and recommend grants from the fund, carrying on the tradition of supporting the causes and organizations that have been most important to the client during their lifetime.

The LCF team looks forward to working with you to achieve your clients' long-term charitable goals, even in the midst of uncertainty concerning the estate tax laws.

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Here at LCF, we're privileged to be 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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