COMMUNITY FOUNDATION
OF WESTERN MASSACHUSETTS

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To Our Local Professional Advisors,

Back to basics: Retirement plans and life insurance can fuel meaningful bequests

Your client's fund at the Community Foundation of Western Massachusetts (CFWM) can be an ideal recipient of estate gifts through a will or trust, or through a beneficiary designation on a qualified retirement plan or life insurance policy.

Bequests of qualified retirement plans can be extremely tax-efficient. This is because charitable organizations such as CFWM are tax-exempt. This means the funds flowing directly to a client's fund at CFWM from a retirement plan after the client's death will not be reduced by income tax. This also means the assets will not be subject to estate tax.

Don't overlook life insurance, either. Not only is your client able to designate a fund at CFWM as the beneficiary of a life insurance policy, but your client also may elect to transfer actual ownership of certain types of policies. For example, when your client makes an irrevocable assignment of a whole life policy to the client's fund at CFWM, a tax-deductible gift of the cash value of the policy occurs at the time of the transfer. A gift like this can ease a client's income tax burden, especially if CFWM continues to own the policy and the client makes annual tax deductible gifts to cover the premiums.

The Community Foundation makes it easy for you to draft bequest terms in legal documents, including beneficiary designations of retirement plans and life insurance policies. Please contact our team for the exact language that will ensure alignment with your client's intentions.

Keep in mind that even after a client has executed estate planning documents or beneficiary designations, in many cases the client can update the terms of the fund at CFWM designated to receive the bequest upon the client's death. Clients love the ease and flexibility and certainly will appreciate your bringing this technique to their attention.

Red hot real estate: Structure smart gifts to charity without getting burned

The housing market is showing no signs of slowing down in 2021. For certain clients, this presents a strong opportunity for charitable gifts of real estate, whether a primary residence, second home, rental property, or even niche commercial property that's benefited from a multi-faceted pandemic marketplace.

As is the case with gifts of other long-term capital gains assets, gifts of real estate to a charity can be extremely tax-efficient. Whether your client is giving a second home, rental property, or commercial property to a fund at CFWM, the client may be eligible for a charitable tax deduction of the fair market value of the property. Because CFWM is a public charity, when the property is sold, the full amount of the proceeds will remain in the fund--not subject to income tax.

Gifts of real estate to charity shouldn't be undertaken lightly, though; certain pitfalls and missteps can have a devastating tax impact. If your client is considering a gift of real estate to charity, consider working closely with CFWM to ensure that the transaction is properly structured.

The team at the Community Foundation can help you navigate the rules for gifts of real estate. such as how to determine valuation, dealing with debt on the property, how to substantiate value and properly report the transaction on Form 8283, when and to what extent minority interest discounts may apply, how to avoid a "step transaction" due to a prearranged sale, and determining whether unrelated business taxable income (UBTI) will be a problem.

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Finally, if your client would like the gift of real estate to benefit one or more favorite nonprofit organizations, CFWM can help facilitate a transfer into a donor advised fund, from which your client can recommend grants to the charity or charities after the property sale is complete.

Tax tips: 2020 tax changes and holiday parties (not)

- If you're having trouble keeping up with changes to the tax laws, you are not alone! If you are a subscriber to the Wall Street Journal, we highly recommend its recently-released tax guide. For a guide that does not require a subscription, *Kiplinger* offers a helpful summary of the changes effective for tax year 2020.

- Finally, we suggest skimming the examples in Private Letter Ruling 202107012, released on February 19, 2021, as a reminder of what types of activities are deemed to go beyond the Internal Revenue Service's definition of "charitable and educational" for qualification as an exempt organization under Internal Revenue Code Section 501(c)(3). (Hint: Holiday parties, outings to restaurants and bars, car shows, and other social gatherings can tip the scales against exemption, even if those activities are conducted in connection with fundraising and collecting in-kind donations for charitable causes.)

Please remember that the Community Foundation of Western Massachusetts is here to support you meet the charitable needs of your clients. Don't hesitate to contact us if we can assist you.

Our best wishes,

Ellen Leuchs
VICE PRESIDENT FOR PHILANTHROPIC SERVICES

Daisy Pereira-Tosado
DIRECTOR OF PHILANTHROPY