



Maximizing Impact: Unlocking the Power of QCDs

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Define Terms

1. The Outright QCD

- Eligibility
- Limitations
- Applications

2. QCDs for Split-Interest Gifts

- Eligibility
- Limitations
- Applications



Part 1:

Outright Qualified Charitable Distributions

Define Terms

- Qualified Charitable Distribution (QCD)
- First introduced in the Pension Protection Act of 2006
- Made permanent in Consolidated Appropriations Act of 2016.
- Also known as a charitable IRA rollover
- Many types of “rollovers” with IRAs
- The term QCD known to financial and legal professionals

Why Make a QCD Gift?

Gifts to charity using the Qualified Charitable Distribution

- A QCD gives the same tax benefit as itemized deductions, even if the donor doesn't itemize (not subject to AGI limits!)
- The QCD also reduces the donor's tax by satisfying the donor's required minimum distribution



What retirement accounts are eligible for QCD?

- Individual retirement account (IRA)
- Roth IRA (of limited use)
- Inactive SEP or Simple IRAs

What retirement accounts not eligible?

- 401(k)
- 403(b)
- Active SEP and Simple IRAs



Traditional Individual Retirement Account

- Tax-free contribution
- Tax-free growth
- Taxable on withdrawal
- Self-directed by account owner
- Typically, employer-sponsored funds (401(k), 403(b)) rolled into IRA at separation or retirement



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Define Terms

Roth IRA

- Taxable at contribution
 - Tax-free growth
 - Tax-free on distribution
 - 5 year holding period during which withdrawals taxable
 - Narrow opportunity with QCDs and Roth IRAs
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Required Minimum Distributions

- Required Minimum Distribution (RMD) begins at age 73
- Plan owner must withdraw according to an IRS schedule
 - Divide IRA balance by years of life expectancy
- Withdrawals are taxed at ordinary income rates
 - Increased income means increased taxes
- Increases in income can increase Medicare premiums



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Eligibility to Make Qualified Charitable Distribution

Outright gifts to charity using the Qualified Charitable Distribution

- Donor must be 70½ at the time of the gift
- In year donor turns 70½, must be after birthday
- Can only come from traditional or Roth IRA
- Total outright QCD gifts in any year limited to \$105,000 (2024) per account owner

Eligibility to Make Qualified Charitable Distribution

- QCD distribution must go directly from IRA administrator to the charity
 - Every IRA administrator has own forms and procedures
- Check from IRA payable to charity sent by donor OK
 - Check can't come from personal (non-IRA) account to qualify
- **Donor not entitled to an income tax charitable deduction**
 - Donor never paid tax on the IRA, so there is no offsetting tax deduction
- QCD reduces RMD dollar for dollar

What Can't a QCD Do?

- Can't provide any goods or services in return for the contribution (token, insubstantial items OK)
- No memberships
- No gala tickets
- No auction items
- To satisfy pledges? We'll talk!





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Can QCD Satisfy a Pledge?

- Yes! Notice 2017-73 says paying a personal pledge with a DAF is permissible
 - Under three conditions:
 - Administrator can't reference the pledge when making the distribution
 - The donor can't receive more than incidental benefit
 - The donor cannot not claim a deduction
 - Wait! We're talking about QCDs, not DAFs
 - QCDs subject to same "no more than insubstantial benefit" limit
 - DAF rules should be applicable to DAFs
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Why Is Now a Good Time for QCDs?

Standard deduction (2024)

- \$14,600 for single filers
- \$29,200 for married couples filing jointly (\$32,300 if both over 65)
- Itemized deductions (including charitable deductions) will not reduce income tax unless total exceeds applicable standard deduction amount

Mechanics of Making a QCD

- Each administrator has specific forms for making a QCD
- Donor can write check on IRA checkbook to charity
- Forms can be cumbersome and confusing
- For gifts over \$10,000 Fidelity requires Medallion Signature Guarantee
 - Medallion Signature Guarantee requires donor to go to a bank, a broker, a dealer, a credit union, a securities exchange or association, a clearing agency, or a savings association
 - Not the same as a notary seal

Recording and Receipting IRA QCDs

- No deductibility language in acknowledgment
- No goods or services language
- Can be difficult to match QCD and donor
 - Checks may arrive without donor name or information
- Hard credit to the donor
- Soft credit recognition to the IRA administrator or no credit at all





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When Is a QCD Gift Complete?

- The gift date of a QCD is when the funds leave the donor's IRA account
 - True regardless of method of delivery
 - Date donor submits forms to initiate a QCD not the gift date
 - Date of gift is not when IRA administrator issues check to charity
 - Gift date is the date the funds are removed from the IRA account
 - If QCD made from a QCD checkbook, date of gift is when the charity deposits the check,
 - Not the date the donor writes or delivers the check
 - Not the mailbox rule
 - Take note if donor counting on year-end gift to satisfy RMD
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Reporting a Qualified Charitable Distribution

- Donor will receive a 1099 from IRA administrator
- On Form 1040 (2023 tax year), report total IRA withdrawals on line 4a
- Report the taxable portion on line 4b
 - Taxpayer enters "QCD" next to line 4b
- See latest version of IRS Publication 526 on reporting

Part 2:

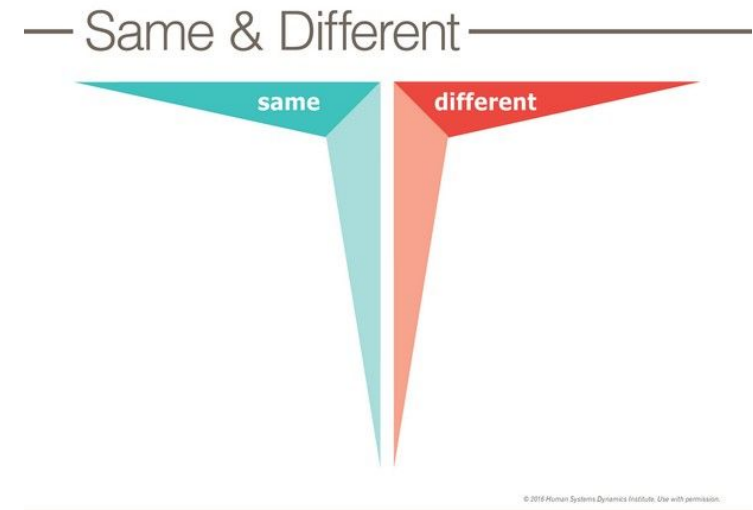
Expansion of the QCD to life income gifts

Things that are the same:

1. Eligible at 70 ½ or older for those with a traditional IRA
2. Must go directly to charity from IRA
3. No income tax charitable deduction
4. Satisfies RMD

Things that are different:

1. Can fund CGA or CRT
2. Limited to \$53,000 (2024)
3. One-time lifetime election



QCD Life-Income Gifts

- Limited to \$53,000 (2024) reduces amount available for outright QCD
- Only plan owner and spouse can be income beneficiaries
- Not certain each spouse can fund \$106,000 split-interest gift
- One-time lifetime election (no carryforward)

- Can fund charitable gift annuity and/or charitable remainder trust
 - No combination of funding assets, or trust additions, allowed
 - No income tax charitable deduction
 - Date of gift?
 - When asset transferred out of the donor's account
 - Mailbox rule does not apply
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What Can Your Donors Do?

- Can fund a split-interest gift (part gift-part income)
- Charitable Gift Annuities
 - Deferred annuities/Flexible annuities not permitted
 - Can make CGAs to multiple charities subject to \$53K limit
- Charitable Remainder Trusts (CRUTs and CRATs)
 - \$53,000 limit not economically feasible for CRT
 - QCDs from married couple's separate IRAs may make \$106,000 dollar limit possible (Uncertain this is permissible.)

Both QCD Flavors Have the Same Benefits

- Tax-free withdrawal that counts towards required minimum distribution (RMD)
- A QCD withdrawal for non-itemizers offers a comparable financial benefit to a charitable deduction
- Takes a lump sum taxed as ordinary income in one year and turns it into a stream of smaller sums taxed as ordinary income over (hopefully) many years
- A CGA turns variable income from the IRA into fixed income
- Can be combined with an outright QCD for greater charitable impact (up to total limit of outright and life income of \$105,000 in 2024)

CGAs – Some Good News

- Can be used to establish one or more CGAs in one year
- CGAs can be established at one or more 501(c)(3)s
- Total gifts across all annuities may not exceed \$53,000 (2024)



Potential Challenges for CGAs

- CGAs must still generate deduction $\geq 10\%$ of gift
- 5% required minimum payout
 - ACGA rate for beneficiaries aged 73 and 59 = 4.9%
 - In such cases, make sure your state registration allows you to offer a rate higher than ACGA
- CGA contract must be non-assignable
 - May require filing revised CGA sample contracts in certain states
- Out of caution, spouses should each fund two-life CGAs from their separate IRAs

- Can two spouses use separate IRAs to fund one two-life CRT?
 - May be permissible if:
 1. Both are over 70 ½
 2. Simultaneous funding
- Trusts must be measured by life, term of years unavailable (donor and spouse must be only possible income recipients)
- No additional assets can be contributed, limiting the utility of a CRT

Who is Your Donor?

- Someone who wants to make a charitable gift
- Someone subject to substantial RMD
- Someone who finds the IRA income “nice but not necessary”
- Someone who can’t use a charitable deduction because they don’t itemize or because they’ve reached their AGI limit
- Someone who is interested in minimizing taxation
- Someone who is interested in generating a fixed stream of income (CGA)

Is This Really a Big Deal?

- There are now three primary assets donors can use to fund CGAs
 - Cash
 - Appreciated securities
 - QCDs
- When a QCD makes sense
 - Donor does not itemize
 - Donor subject to RMD
 - Entire QCD counts against RMD
- New reason to connect with donors and prospects

- Guide to funding decisions with a QCD: Key considerations
 - Does Donor itemize?
 - If not, QCD offers non-itemizers a charitable deduction substitute
 - If donor itemizes, stay tuned
 - Is the donor required to take an RMD?
 - If donor wants to avoid taking RMD, QCD beneficial
 - Does donor have long-term appreciated securities?
 - Benefits of tax deduction and capital gain avoidance may exceed value of a QCD
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QCD CGA vs. Cash CGA

Criteria: Donor/Annuitant age 73 is in 24% tax bracket, IRS Discount Rate 5.8%, 2000CM Mortality Table, ACGA annuity rate of 6.7%

Principal Donated \$ 53,000 \$ 53,000

(IRA QCD)(after-tax cash)

BENEFITS:

Tax savings on RMD \$ 12,720 N/A

Charitable Deduction \$ 0 \$ 22,309

Tax savings from Deduction N/A \$ 5,354

Annual Payout \$ 3,551 \$ 3,551

Tax-free Portion \$ 0 \$ 2,223 (for 13.8 years)

Ordinary Income \$ 3,551 \$ 1,328

After tax income \$ 2,699 \$ 3,232

Total tax savings \$ 12,720 \$ 5,354

Next Steps

- Create QCD compliant CGA contract with non-assignability clause
- Review state regulations
 - Required to submit QCD CGA contract to any states?
- Create a QCD acknowledgement
 - No deductibility language
 - Include “no goods or services were provided” language
- Legal name, address and tax ID (EID) are easy to find on your website
- Confirm how to model CGA with a zero deduction and all ordinary income