DETERMINING THE BEST ASSET TO FUND A GIFT ANNUITY

Since January 1, 2023, donors age 70½ or older have had a new asset available to establish a charitable gift annuity (CGA): a qualified charitable distribution (QCD) from their Individual Retirement Account (IRA). A year later, donors continue to ask whether it is better to fund a CGA with cash, appreciated securities, or a QCD. We're pleased to offer fundraisers this decision tree to help navigate these discussions.

While any of these assets can be a good choice to fund a CGA , the best choice depends on a matrix of factors that can be brought into focus by asking three critical questions.

DOES YOUR DONOR ITEMIZE?

With the expanded standard deduction (in 2024: $14,600 for single filers, $29,200 for joint filers, and $32,300 for a married couple filing jointly who are both over age 65) and the limitations on many itemized deductions including for state and local real estate taxes, only about 10% of taxpayers itemize and therefore can benefit from their charitable deductions. The QCD offers non-itemizers a tax benefit similar to a charitable deduction because there is no income tax on the QCD withdrawal from their IRA.

If your donor does itemize, the benefit of a charitable deduction may push the funding asset conversation toward cash or appreciated securities held long-term.

WILL THE ENTIRE QCD COUNT TOWARD YOUR DONOR'S RMD?

IRA owners who are age 73 or older are required to withdraw a minimum distribution (RMD) from their IRA each year or pay a 25% penalty tax. However, a QCD counts toward the donor's RMD without income tax on the QCD withdrawal. If the entire QCD can be used to offset the donor's RMD, then the QCD is a tax win. If only part of the QCD can be used against the donor's RMD, then it becomes more likely that funding a CGA with cash or appreciated securities will be attractive for the donor.

This doesn't mean that a QCD should never be used if it won't offset the donor's entire RMD. There are timing and deductibility limits that should be considered, too.

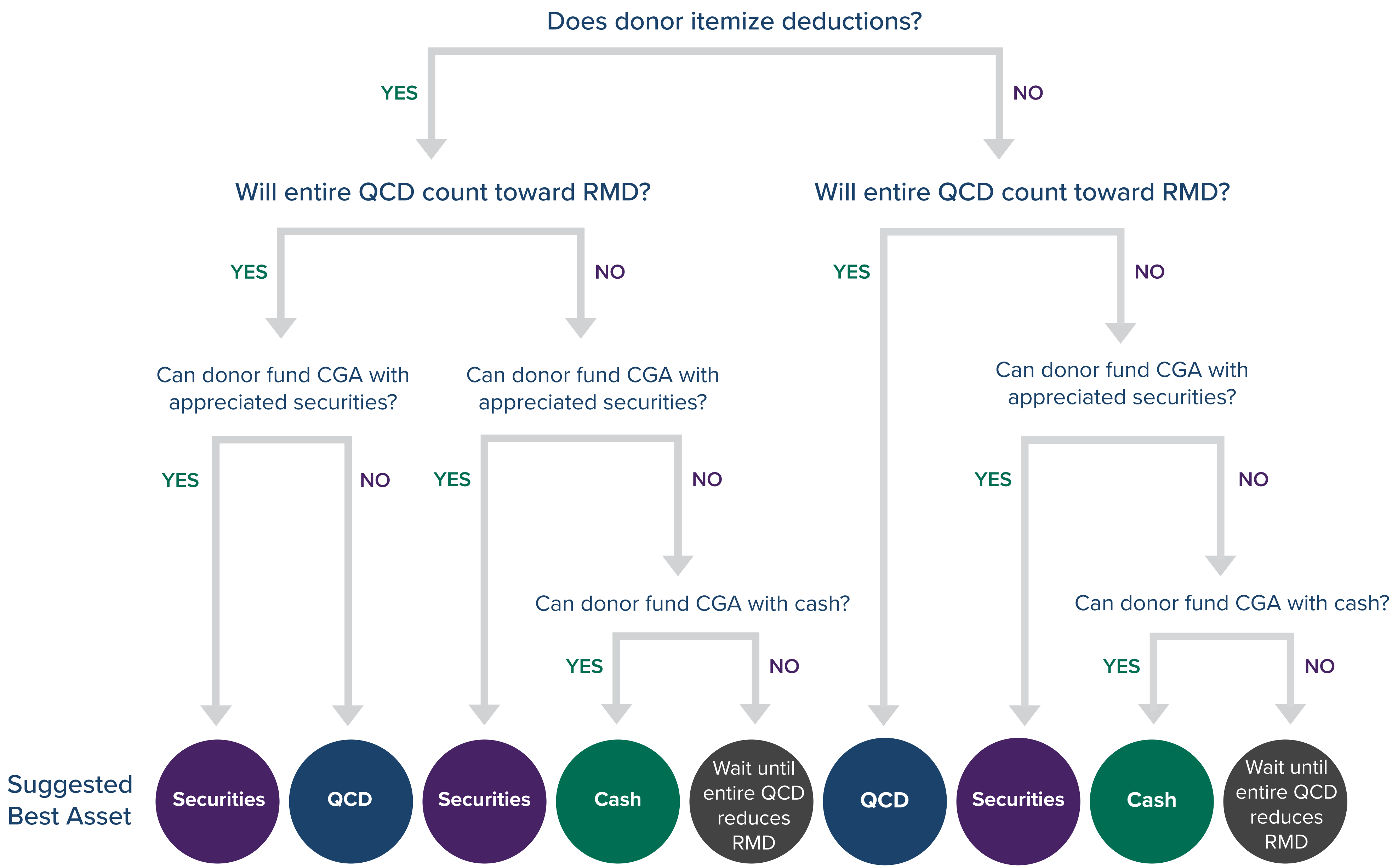
CAN YOUR DONOR FUND THE CGA WITH LONG-TERM APPRECIATED SECURITIES?

A gift of appreciated securities the donor has held more than one year (i.e., long-term) has four tax benefits: no immediate capital gains tax on the transfer, a portion of the taxable gain is avoided entirely, a charitable deduction produces income tax savings, and a portion of the annuity payment is taxed at the lower capital gains rate.

Because of these tax benefits, the decision tree favors a gift of long-term appreciated securities over a gift of cash or a QCD in most cases. The greater the appreciation, the greater the benefit.

Ultimately, the donor should rely on their own advisors when choosing the asset with which to fund a CGA. By asking your donor these three critical questions, you can guide your donor toward the optimal funding asset. As you'll see from the decision tree, each asset can fund a good gift, but depending on your answers to the questions in the tree, some assets may provide more benefit to the donor than others.

SUGGESTED BEST ASSET FOR FUNDING A CGA



Securities = Long term capital gain property with appreciation of 50% or more. More appreciation means greater benefit from gift.
QCD = Qualified charitable distribution.
RMD = Required minimum distribution. RMD equal to or greater than QCD achieves the maximum benefit from QCD.

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