DETERMINING THE BEST ASSET TO FUND AN OUTRIGHT GIFT

Donors who are age 70½ or older can make outright gifts with a qualified charitable distribution (QCD) from their Individual Retirement Account (IRA). These donors may wonder whether it is better to fund an outright gift with cash, appreciated securities, or a QCD. This guide is designed to help your donor select the best asset to make a current gift to charity using one of these assets. (PG Calc has also published a guide to selecting the best of these assets to fund a life income gift.) While any of these assets can be a good choice to fund an outright gift, the best choice depends on a matrix of factors that you can bring into focus by asking three critical questions.

1. DOES YOUR DONOR ITEMIZE?

With the expanded standard deduction* and the limitations on many itemized deductions, including for state and local real estate taxes, only about 10% of taxpayers itemize and therefore can make use of the charitable deduction to reduce their taxes. For all taxpayers, including the 90% who do not itemize, the QCD offers a tax benefit similar to a charitable deduction because there is no income tax on a QCD withdrawal from an 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. Using either of these assets to make a gift allows the donor to keep more funds in their IRA where they can continue to grow on a tax deferred basis.

** In 2024, the standard deduction is $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.*

2. WILL THE QCD COUNT TOWARD YOUR DONOR'S RMD?

IRA owners who are age 73 or older must withdraw a required minimum distribution (RMD) from their IRA each year or pay a 25% penalty tax. However, a QCD can count toward a donor's RMD without income tax on the QCD withdrawal. The donor's tax benefit is greatest when every dollar of QCD counts toward their RMD. If all or most of the QCD can be used to offset the donor's RMD, then the QCD is a tax win and a great asset to fund an outright gift, even if the donor is able to itemize. When a donor is considering a QCD that is greater than their unfulfilled RMD for the year, only the part of the QCD equal to the unfulfilled RMD will count toward their RMD. In this case, the donor might still prefer to make a QCD. Alternatively, the donor could make a QCD equal to their RMD and use cash or appreciated securities to fund the balance of their gift. The donor could also delay their QCD until a year when all of it will count toward their RMD.

3. CAN YOUR DONOR FUND THE GIFT WITH LONG-TERM APPRECIATED SECURITIES?

A gift of appreciated securities the donor has held more than one year (i.e., long-term) provides two valuable tax benefits: no capital gains tax on the transfer and an income tax charitable deduction equal to the fair market value of the appreciated securities on the date of gift. Note that the opportunity to avoid capital gains tax is a benefit to non-itemizers as well as itemizers. Because of the double tax benefit (avoidance of capital gains tax and reduction of taxable income), 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 to the donor.

Ultimately, donors should rely on their own advisors when choosing the asset with which to fund an outright gift. 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 on the next page, each asset can be a good gift, but some assets may provide more benefit to your donor than others.

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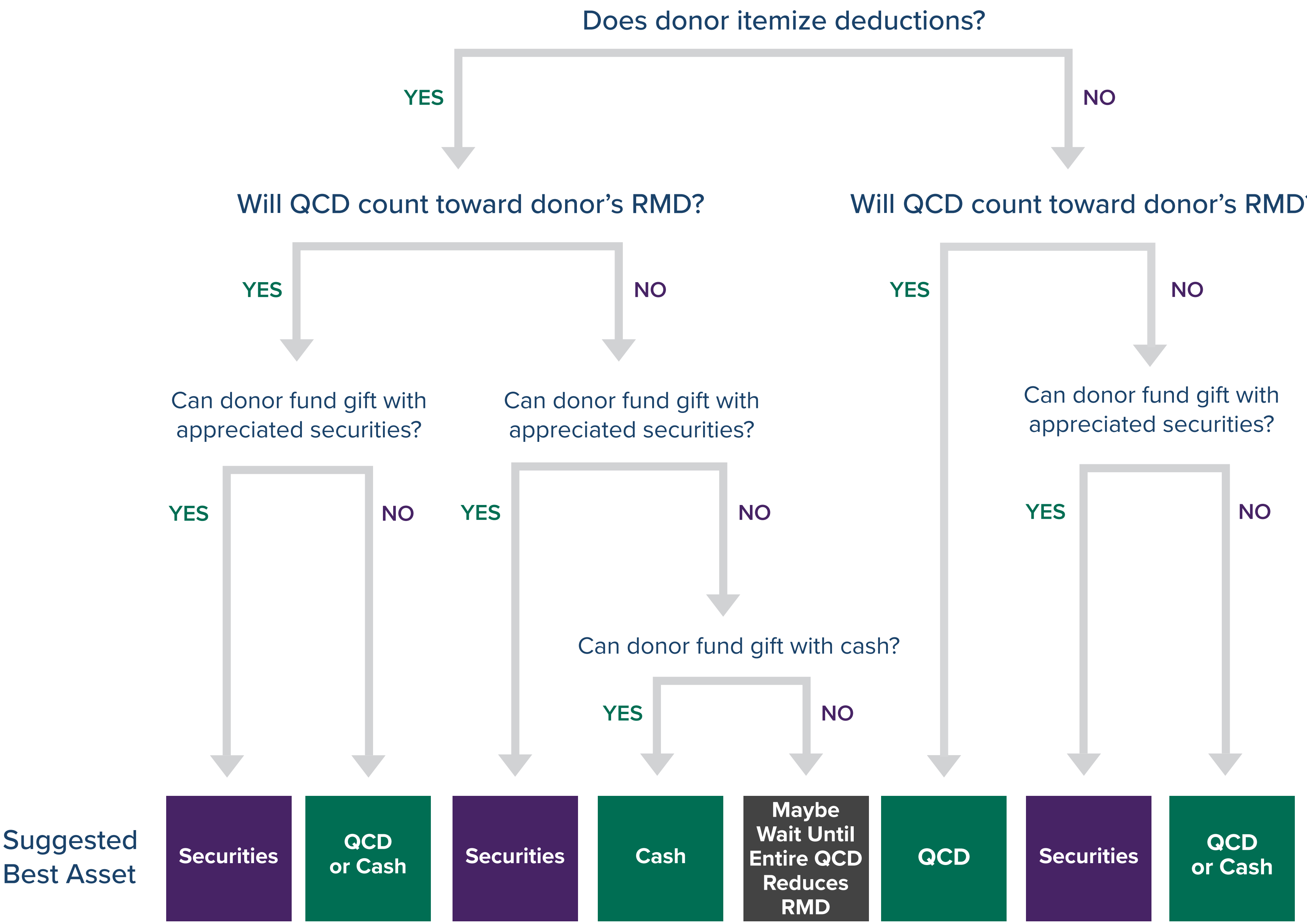
SUGGESTED BEST ASSET TO FUND AN OUTRIGHT GIFT



Securities = Long term capital gain property. 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 to donor from QCD.

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