


PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS



What Should Your Donor Give? Cash, Securities, or a QCD?

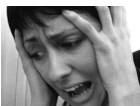
Presenters: Jeff Lydenberg
Vice President, Consulting
Bill Laskin
Vice President, Product Management
PG Calc

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Agenda

1. Tax Consequences of Cash and Appreciated Property Gifts
2. The Outright QCD as a Gift Asset
3. QCDs for Split-Interest Gifts
4. Key Considerations in Asset Selection
5. Financial Considerations in Funding Outright Gifts
6. Financial Considerations in Funding Gift Annuities



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Qualified Charitable Distributions

- Qualified Charitable Distribution (QCD)
- Became law in the Pension Protection Act of 2006 subject to extension
- Made permanent in The Protecting Americans from Tax Hikes Act of 2015 (PATH)
- Also known as a charitable IRA rollover
- The term QCD known to financial and legal professionals

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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 more than 6 months after birthday
- Can only come from traditional or Roth IRA
- Total outright QCD gifts in any year limited to \$108,000 (2025) per account owner

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Define Terms

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



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Define Terms

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
- Subject to required minimum distributions (RMD) starting at 73

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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
- Not subject to required minimum distributions

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Key Consideration: Is Your Donor Subject to RMD?

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

- 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

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Key Consideration: Does Your Donor Itemize?

- Itemized deductions (including charitable deductions) will not reduce income tax unless total exceeds applicable standard deduction amount
 - CBO estimates only 9% of taxpayers will itemize in 2023

State and local income, general sales, and property taxes

- Limited to a combined total deduction of \$10,000

Standard deduction (2025)

- \$15,000 for single filers
- \$30,000 for married couples filing jointly (\$33,200 if both over 65)

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Expansion of the QCD to life income gifts

- SECURE Act 2.0 of the Consolidated Appropriations Act, 2023
- Can fund charitable gift annuity and/or charitable remainder trust
- No combination of funding assets, or trust additions, allowed
- No income tax charitable deduction
- Only plan owner and spouse can be income beneficiaries
- One-time lifetime election (no carryforward)
- Limited to \$54,000 (2025)
 - Reduces the \$108,000 available for outright QCDs

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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 \$54,000 limit
- Charitable Remainder Trusts (CRUTs and CRATs)
 - \$54,000 limit not economically feasible for CRT
 - QCDs from married couple's separate IRAs may make \$108,000 dollar limit possible (uncertain this is permissible)

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Important Limitations to QCD/CGA Gifts

- CGAs must still generate charitable portion $\geq 10\%$ of amount transferred
- 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 QCD-specific CGA sample contracts in certain states
- Out of caution, spouses should fund separate two-life CGAs from their separate IRAs

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Potential Challenges for Charitable Remainder Trusts

- 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

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Is This Really a Big Deal?

- There are now three primary assets donors can use to fund outright gifts and CGAs
 - Cash
 - Appreciated securities
 - QCDs
- When might a QCD makes sense?
 - Does Donor itemize?
 - Is Donor subject to RMD?
 - Will all of the QCD offset the Donor's RMD?

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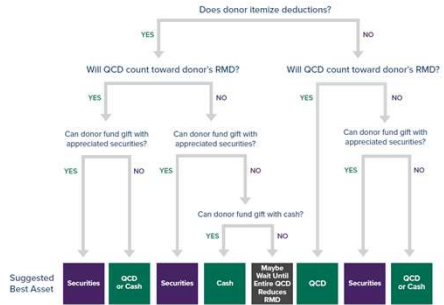
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Guide to funding decisions with a QCD: Key considerations

- 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 tax on RMD, QCD beneficial
- Does donor have long-term appreciated securities?
 - Benefits of tax deduction and capital gain avoidance may exceed tax benefits of a QCD

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Asset Decision Tree – Outright Gift



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Donor can use deduction and RMD

	QCD	Cash	LTCG Property
1 Contribution	\$50,000	\$50,000	\$50,000

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Outright Gift Analysis

Donor can use deduction and RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000

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Outright Gift Analysis

Donor can use deduction and RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000
3	Charitable deduction	\$0	\$50,000	\$50,000

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Outright Gift Analysis

Donor can use deduction and RMD

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3	Charitable deduction	\$0	\$50,000	\$50,000
4	Income tax savings (@ 24%)	\$0	\$12,000	\$12,000

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Outright Gift Analysis

Donor can use deduction and RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000
3	Charitable deduction	\$0	\$50,000	\$50,000
4	Income tax savings (@ 24%)	\$0	\$12,000	\$12,000
5	Capital gain (50% basis)	\$0	\$0	\$25,000

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Outright Gift Analysis

Donor can use deduction and RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000
3	Charitable deduction	\$0	\$50,000	\$50,000
4	Income tax savings (@ 24%)	\$0	\$12,000	\$12,000
5	Capital gain (50% basis)	\$0	\$0	\$25,000
6	Capital gains tax savings (@ 15%)	\$0	\$0	\$3,750

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Outright Gift Analysis

Donor can use deduction and RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000
3	Income tax savings (@ 24%)	\$0	\$12,000	\$12,000
4	Capital gains tax savings (@ 15%)	\$0	\$0	\$3,750
5	Out-of-pocket cost of gift (1 + 2 - 3 - 4)	\$50,000	\$50,000	\$46,250

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Outright Gift Analysis

Donor can use deduction, but no RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$0	\$0
3	Income tax savings (@ 24%)	\$0	\$12,000	\$12,000
4	Capital gains tax savings (@ 15%)	\$0	\$0	\$3,750
5	Out-of-pocket cost of gift (1 + 2 - 3 - 4)	\$50,000	\$38,000	\$34,250

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Outright Gift Analysis

Donor cannot use deduction, but can use RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000
3	Income tax savings (@ 24%)	\$0	\$0	\$0
4	Capital gains tax savings (@ 15%)	\$0	\$0	\$3,750
5	Out-of-pocket cost of gift (1 + 2 - 3 - 4)	\$50,000	\$62,000	\$58,250

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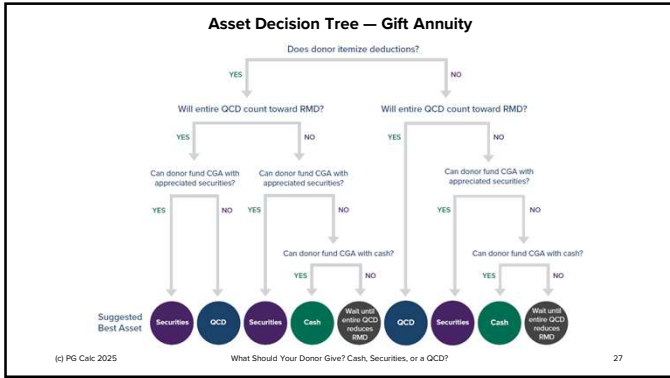
Outright Gift Analysis

Donor cannot use deduction and no RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$0	\$0
3	Income tax savings (@ 24%)	\$0	\$0	\$0
4	Capital gains tax savings (@ 15%)	\$0	\$0	\$3,750
5	Out-of-pocket cost of gift (1 + 2 - 3 - 4)	\$50,000	\$50,000	\$46,250

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Gift Annuity Analysis

Example:

- 79-year-old annuitant*
- Funding amount = \$50,000
 - ✓ QCD
 - ✓ Cash
 - ✓ Stock with \$25,000 cost basis
- ACGA rate = 7.8%
- Quarterly payments
- IRS discount rate = 4.8%

* Average annuitant age on gift date per 2021 ACGA Survey

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Gift Annuity Analysis

Donor can use deduction and RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000
3	Charitable deduction	\$0	\$21,863	\$21,863
4	Income tax savings (@ 24%)	\$0	\$5,247	\$5,247
5	Capital gains tax savings (@ 15%)	\$0	\$0	\$3,750
6	Out-of-pocket cost of gift (1 + 2 - 4 - 5)	\$50,000	\$56,753	\$53,003

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Gift Annuity Analysis

Donor can use deduction and RMD

		QCD	Cash	LTCG Property
1	Contribution	\$50,000	\$50,000	\$50,000
2	Income tax on RMD (@ 24%)	\$0	\$12,000	\$12,000
3	Charitable deduction	\$0	\$21,863	\$21,863
4	Income tax savings (@ 24%)	\$0	\$5,247	\$5,247
5	Capital gains tax savings (@ 15%)	\$0	\$0	\$3,750
6	Out-of-pocket cost of gift (1 + 2 - 4 - 5)	\$50,000	\$56,753	\$53,003
6	Out-of-pocket cost of outright gift	\$50,000	\$50,000	\$46,250

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Gift Annuity Analysis

After-tax value of annuity payments

	QCD
1	Annuity \$3,900
2	Tax-free portion \$0
3	Capital gain portion \$0
4	Ordinary income portion \$3,900
5	After-tax payments (24% inc./15% cg) \$2,964
6	Years of tax-free/capital gain 0

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Gift Annuity Analysis

After-tax value of annuity payments

	QCD	Cash
1	Annuity \$3,900	\$3,900
2	Tax-free portion \$0	\$2,843
3	Capital gain portion \$0	\$0
4	Ordinary income portion \$3,900	\$1,057
5	After-tax payments (24% inc./15% cg) \$2,964	\$3,646
6	Years of tax-free/capital gain 0	9.9

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Gift Annuity Analysis

After-tax value of annuity payments

	QCD	Cash	LTCG Property
1 Annuity	\$3,900	\$3,900	\$3,900
2 Tax-free portion	\$0	\$2,843	\$1,422
3 Capital gain portion	\$0	\$0	\$1,422
4 Ordinary income portion	\$3,900	\$1,057	\$1,057
5 After-tax payments (24% inc. /15% cg)	\$2,964	\$3,646	\$3,434
6 Years of tax-free/capital gain	0	9.9	9.9

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Gift Annuity Analysis

Donor can use deduction and RMD

	QCD	Cash	LTCG Property
1 Out-of-pocket cost of gift	\$50,000	\$56,753	\$53,003
2 Net tax savings	\$0	\$-6,753	\$-3,003
3 Total after-tax payments (13 years)	\$38,532	\$45,285	\$43,175
4 Total benefit (2 + 3)	\$38,532	\$38,532	\$40,172

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Gift Annuity Analysis

Donor can use deduction and RMD (PV = 4.75%)

	QCD	Cash	LTCG Property
1 Out-of-pocket cost of gift	\$50,000	\$56,753	\$53,003
2 Net tax savings	\$0	\$-6,753	\$-3,003
3 Total after-tax payments (13 years)	\$28,266	\$33,555	\$31,903
4 Total benefit (2 + 3)	\$28,266	\$26,802	\$28,900

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Gift Annuity Analysis

Donor can use deduction, but no RMD (PV = 4.75%)

		QCD	Cash	LTCG Property
1	Out-of-pocket cost of gift	\$50,000	\$44,753	\$41,003
2	Net tax savings	\$0	\$5,247	\$8,997
3	Total after-tax payments (13 years)	\$28,266	\$33,555	\$31,903
4	Total benefit (2 + 3)	\$28,266	\$38,802	\$40,900

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Gift Annuity Analysis

Donor cannot use deduction, but can use RMD (PV = 4.75%)

		QCD	Cash	LTCG Property
1	Out-of-pocket cost of gift	\$50,000	\$62,000	\$58,250
2	Net tax savings	\$0	\$-12,000	\$-8,250
3	Total after-tax payments (13 years)	\$28,266	\$33,555	\$31,903
4	Total benefit (2 + 3)	\$28,266	\$21,555	\$23,653

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Gift Annuity Analysis

Donor cannot use deduction and no RMD (PV = 4.75%)

		QCD	Cash	LTCG Property
1	Out-of-pocket cost of gift	\$50,000	\$50,000	\$46,250
2	Net tax savings	\$0	\$0	\$3,750
5	Total after-tax payments (13 years)	\$28,266	\$33,555	\$31,903
6	Total benefit (2 + 5)	\$28,266	\$33,555	\$35,653

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Funding Asset Analysis Tool

URL: https://marketing.pgcalc.com/nov2024_funding-asset-analysis-tool-ty

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Assumptions

Marginal income tax rate	24%
Marginal capital gains tax rate	15%
RMD remaining for year	\$50,000
Gift amount	\$50,000
Basis for LTCG property (securities)	\$25,000

	Donor Can Use Deduction			Donor Cannot Use Deduction		
	QCD	Cash	LTCG Property	QCD	Cash	LTCG Property
1 Contribution	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
2 Income tax on RMD offset by QCD (84 x (lesser of 86 & 88))	\$0	\$12,000	\$12,000	\$0	\$12,000	\$12,000
3 Charitable deduction income tax savings (84 x 88)	\$0	\$12,000	\$12,000	\$0	\$0	\$0
4 Capital gains tax savings (88 - 86) x 85	\$0	\$0	\$3,750	\$0	\$0	\$3,750
5 Out of pocket cost of gift (1+2+3+4)	\$50,000	\$90,000	\$66,350	\$50,000	\$82,000	\$66,350

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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

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Questions?



Click the Q&A icon at the bottom of your screen.



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Thank You!

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