

**PG Calc** YOUR PARTNER IN PLANNED GIVING SUCCESS

**QCDs Beyond FAQs: A Deeper Look at the Charitable IRA Rollover**



Date: July 30, 2020  
 Time: 1:00 – 2:30 Eastern  
 Presenter: Edie Matulka  
 Senior Consultant  
 PG Calc

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**What's in a Name?**

Qualified Charitable Distribution (QCD)  
 v.  
 IRA Charitable Rollover



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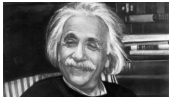
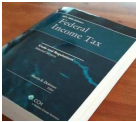
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**Why a Deeper Look?**

Genius is taking the complex and making it simple.

Enacting tax law is . . . taking the simple and making it complex?

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### Importance of Gifts from IRAs

#### US Total Retirement Market Assets In trillions of dollars

Year	Annuity reserves	Government DB plans	Private-sector 401 plans	DC plans	IRAs
2000	11.6	3.0	3.0	3.0	2.5
2005	14.4	3.7	4.0	3.7	3.0
2010	18.9	4.1	4.8	4.8	3.8
2015	24.0	5.2	6.5	6.5	5.5
2016	25.4	5.4	6.9	6.9	6.0
2017	26.8	6.0	7.7	7.7	6.4
2018	28.0	6.8	8.3	8.3	7.6
2019 Q1	30.0	7.2	8.3	8.3	8.2
2019 Q2	30.8	7.2	8.5	8.5	8.6
2019 Q3	31.1	7.3	8.6	8.6	9.0
2019 Q4	32.6	7.3	8.7	8.7	9.3
2020 Q1	28.7	7.2	7.9	7.9	9.5

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal revenue Service Statistics of Income Division

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### IRA Withdrawals – Under Age 59 1/2

- Elaine, 55, withdraws \$20,000 from her IRA to make a gift to her alma mater in a campaign. The \$20,000 is added to Elaine's gross income.
  - ✓ Distribution is taxable
  - ✓ If she itemizes, charitable deduction for gift
  - ✓ 10% penalty for early distribution

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### IRA Withdrawals – Between Ages 59 1/2 and 72

- Anne, 65, and Bill, 68, spouses, want to make a gift for historic preservation. Anne withdraws \$18,000 from her IRA account. They no longer itemize deductions.
  - ✓ Distribution is taxable
  - ✓ No penalty for the withdrawal
  - ✓ At 70 1/2 eligible for QCD

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### IRA Withdrawals - Age 72 and Older

- Required minimum distributions (RMD)
  - ✓ RMD determined by Uniform Lifetime Table
  - ✓ RMD increases adjusted gross income (AGI)
  - ✓ Potential negative impact on federal benefits from higher AGI (Social Security taxes, medical deductions, Medicare premiums, etc.)
- Incentive to keep RMD from AGI
- Penalty for not taking RMD – 50% of shortfall



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### QCD – IRS Rules (part 1)

- Minimum age is 70 ½ *when the gift is made*
- \$100,000 maximum in each tax year (spouses?)
- Traditional or Roth IRA account
- What about SEPs and SIMPLE plans? (advisor alert)
- Gift must go to a public charity (not DAF, SO, PF)
- Transfer from IRA directly to charity

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### RMD & QCD Working Together

- Big advantage: QCD counts towards RMD
 

Mary, 75, has \$500,00 in her IRA. She no longer itemizes. Her RMD in 2019 was \$21,834. Mary also did QCDs for \$10,000 and \$2,000

  - ✓ She avoided tax on the \$12,000 in QCD distributions
  - ✓ Still had to take an RMD of \$9,834 (\$21,834 - \$12,000), which was taxable



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### RMD Then QCD

Tim, 80, has an IRA with \$750,000. Tim took his entire RMD of \$40,107 at the start of 2019 so he and his wife could take a luxury vacation. Later in the year Tim did a QCD for \$80,000 to his alma mater to help them meet a campaign goal.

- ✓ Tim paid taxes on his \$40,107 RMD
- ✓ No taxes on \$80,000 QCD
- ✓ *Might play out differently in 2020: RMDs waived, previously taken RMDs can be repaid until August 31*

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### QCD – IRS Rules (part 2)

- No quid pro quo – entire QCD must qualify for a deduction
  - ✓ No gala tickets, seats at football games, life income payments
- QCD can fulfill a legally binding pledge
- Donor must receive substantiation
 

*I am writing to acknowledge that we received your gift directly from your plan administrator and that it is your intention for your gift to qualify as a QCD.*
- No charitable deduction for QCD gifts; instead withdrawal not taxable

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### QCD and Quid Pro Quo

Elaine lives for operas and gives her local opera company \$3,000/yr. Elaine gets a \$250 ticket to the gala for her gift. Elaine turns 70½ and does a QCD for \$3,000 and the opera company still sends her a gala ticket.

- ✓ Is the QCD ok?
- ✓ Will the distribution count toward Elaine's RMD?

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**Disqualified QCD (quid pro quo)**

- No, the QCD is disqualified!
- Gala tickets are a quid pro quo (not deductible)
- The entire QCD must qualify to receive QCD treatment

So . . .

- \$3,000 will be added to Elaine's taxable income
- She will get an income tax charitable deduction for \$2,750; she may or may not be able to use it
- \$3,000 withdrawal will still count toward her RMD

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**SECURE Act and QCDs – RMD Age Increased**

- Age at which retirement plan owner must start taking RMDs increased from 70½ to 72
  - ✓ Applies to owners who turn 70½ in 2020 or later (born on or after July 1, 1949)
  - ✓ Old rules apply to owners who turned 70½ before 2020 
- QCD still a great gift between 70½ and 72, esp. if donor doesn't itemize or can't use all of deduction
- If donor delays withdrawals until 72, RMDs may be larger; an incentive to make larger QCDs thereafter

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**SECURE Act and QCDs – IRA Contributions After 70½**

- Previously, IRA owner could contribute to IRA only until age 70½
- Now, working IRA owner can contribute to IRA so long as he/she is working
  - ✓ May or may not choose to deduct contributions from taxable income
  - ✓ If worker chooses to deduct post-70½ contributions
    - Amount of subsequent QCD excludable from income is reduced by this amount
    - Rest is reported as income and deductible

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**SECURE ACT and QCDs – IRA Contributions After 70½**

- Example 1
 

Donor makes QCD	\$50,000
IRA contributions deducted since turning 70½	- \$20,000
QCD excludable from taxable income	\$30,000
QCD declared as taxable income	\$20,000

(\$20,000 available as a charitable deduction, but won't offset additional taxable income if donor doesn't itemize or otherwise can't use all of deduction)
- If donor deducts no more IRA contributions and makes another \$50,000 QCD, all \$50,000 will be excludable from income.

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**SECURE ACT and QCDs – IRA Contributions After 70½**

- Example 2
 

Donor makes QCD	\$20,000
IRA contributions deducted since turning 70½	\$50,000
QCD excludable from taxable income	\$ 0
QCD declared as taxable income	\$20,000

(\$20,000 available as a charitable deduction, but won't offset additional taxable income if donor doesn't itemize or otherwise can't use all of deduction)
- Assuming no more IRA contributions, donor still has \$30,000 in post-70½ contributions that will prevent QCDs up to that amount from being tax-free distributions.

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**SECURE ACT and QCDs – IRA Contributions After 70½**

- Complications – for advisor, not gift planner
 

If donor makes, but doesn't deduct, IRA contributions after 70½ - QCD not reduced, but . . .

  - ✓ IRA includes both funds that are taxable and funds that are not taxable
  - ✓ QCDs deemed to come first from amounts that would have been included in income
  - ✓ RMDs are deemed to come pro rata from taxable and non-taxable amounts

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### SECURE Act and QCDs - "Stretch" IRA Rules

- "Stretch" IRA no longer available for many non-spouse beneficiaries
  - ✓ Previously, an IRA beneficiary could stretch RMDs over her life expectancy (assets in IRA continued to grow tax-free)
  - ✓ Most non-spouse beneficiaries more than 10 years younger than deceased owner must empty IRA within 10 years (though no annual RMD during that time)



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### SECURE Act and QCDs - "Stretch" IRA Rules

**Consequences of new inherited IRA distribution rules:**

- 10-year limit means bigger withdrawals
  - ✓ Could push beneficiary into higher tax brackets
  - ✓ Could increase premiums, such as Medicare Parts B & D
- May encourage donors to:
  - ✓ Make charitable gifts via QCDs, both drawing down balance and maintaining other assets for heirs
  - ✓ Designate charities as beneficiaries of IRA

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### Marketing QCDs

- Best Prospects
  - ✓ IRS requirement – age 70 ½+
  - ✓ Does not need RMD for living expenses
  - ✓ No longer itemizing deductions (renting, no mortgage, in a retirement community)
  - ✓ Large gift exceeding AGI, limiting deduction

Filing Status	Standard Deduction Amount
Single	\$12,400
Married Filing Jointly & Surviving Spouses	\$24,800
Married Filing Separately	\$12,400
Heads of Household	\$18,650

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### Marketing QCDs

- Do so on a consistent, recurrent basis
  - ✓ Still new idea to many, even after 14 years
  - ✓ New batch of eligible donors each year
  - ✓ Prior messaging may have been seen but not heard
- Timing
  - ✓ Catch both the early and late RMD takers
  - ✓ Tax tie-in
  - ✓ Marketing in 2020 still makes sense – may be best way for a donor to make gift

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### Marketing QCDs

- Messaging:
  - ✓ Tax-smart gift: "No longer itemizing?"
  - ✓ RMD deadline: "Not too late to save"
  - ✓ New tax law: "Here's how it's affected" or "Here's how a QCD remains a tax-beneficial option" (but keep it simple)
- 2020:
  - ✓ If stand-alone pieces reduced, include QCD message in other communications; outright/annual gift
  - ✓ Even more emphasis on consultation with advisors (many tax changes, permanent and temporary)

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### QCD – How to Initiate

- Contact IRA administrator
- Download form or possibly can complete on-line
  - ✓ QCD-specific
  - ✓ Combined RMD/QCD
- IRA checkbook, if available
- Incorrect process could equal failed QCD; *steer clear of providing guidance on completing forms!*

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## How to Initiate – Hancock Form (Appendix 3)

Name (First)  (Last)

Address (Street)  City  State

Financial Representative's Name (if applicable)  Financial Representative's Phone Number

### 3. Qualified Charitable Distribution Instructions

Please make a direct charitable distribution from my John Hancock Individual Retirement Account. I hereby request that the organization named below memorialize my name and address (see Section 1) as the donor of record in connection with this transfer.

Please withdraw the following amount (select one):

- Required Minimum Distribution (RMD) amount for the current year (this option is not available to Roth IRAs or RMDs already distributed).
- Other amount (not to exceed \$100,000.00): \$

Legal Name of Charity/PA  Phone Number  Attention

Address (Street)  City  State  Zip

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## How to Initiate – Voya Form (Appendix 5)

B. Distributions from Individual Retirement Arrangements (IRAs), which includes the life expectancy tables used to calculate RMD amounts.

Note: Your RMD will be calculated based on the Uniform Lifetime Table, unless the following exception applies to you and you have indicated so by checking the box below:

- My sole primary beneficiary is my spouse who is more than 10 years younger than I am. I elect to calculate my RMD based on the Joint and Survivor Expectancy Table. Spouse's Date of Birth: MM / DD / YY

### TYPE OF DISTRIBUTION

Single Sum / One-Time Distribution (options): (Note if you were born on or after July 1, 1949 RMD distribution age will be age 72 not 70 1/2)

- Calculate RMD Amount: Calculate and distribute immediately upon receipt of this form my  current year RMD. I understand that I am responsible for ensuring any future year RMD amounts are satisfied by contacting the Custodian to request subsequent distributions.
- Prior year deferred RMD (must be received between January 1<sup>st</sup> and April 1<sup>st</sup>) applies only if you attained age 70½ in 2019 and you are electing to also distribute last year's RMD.
- Distribute a fixed amount of \$  immediately upon receipt of this form. I understand that I am responsible for ensuring my RMD amounts are satisfied each year and for contacting the Custodian to request any subsequent distributions.
- Qualified Charitable Distribution ("QCD") - mark this box if the amount indicated above is a QCD distribution (SEP and SIMPLE IRAs are excluded). Attach a letter of instruction providing the name of the charity(ies), specific allocation(s) and provide the mailing instructions. The amount(s) distributed as a QCD must not exceed \$100,000. Any amounts in excess of the applicable limit will be distributed based on your instructions provided in the section titled Payment Method on the next page.

Systematic Distributions (options): (Note if you were born on or after July 1, 1949 RMD distribution age will be age 72 not 70 1/2)

- Calculate and distribute my current year RMD amount for this year and all subsequent years. I understand that the Custodian will continue to calculate and distribute my RMD amount for all subsequent years until I notify them to discontinue the payments.
- Prior year deferred RMD (must be received between January 1<sup>st</sup> and April 1<sup>st</sup>) applies only if you attained age 70½ in 2019 and have not satisfied your RMD (lifetime exception allowed only for RMDs for a maximum of 70%). By checking this box you are requesting

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## How to Initiate – Schwab Form (Appendix 4)

State  Zip Code

If you want a memo printed on your check, enter it here:

Memo (Optional; 24-character limit)

If you would like to make a charitable donation, enter the name of the charity as payee and select "Mail to my home address." This will ensure you are able to obtain a receipt from the charity for your tax records. Talk to your tax adviser to see if your distribution is eligible for a qualified charitable distribution (QCD).

- Make payable to a third party.

Payee

- Mail to my home address.
- Mail to the following address (Not available for QCDs):

Street Address  City

State  Zip Code

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### QCD – Year-end Tax Trap

- What is the date of a QCD?
- Postmark date vs. Date funds withdrawn from IRA
- IRA administrator check vs. IRA checkbook check
- Year of the 1099-R will govern for tax purposes
- *Critically important when QCD is intended as full or partial satisfaction of RMD*



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### Year-end QCD – IRA Administrator Issues Check

Rick, 78, mails a QCD form to his IRA administrator on 12/19 for a gift to his local animal shelter. The IRA administrator processes the gift on 12/23 & mails check to the animal shelter on 12/26. The animal shelter receives check on 1/2 and deposits the check on 1/5.

Result?

- ✓ Assuming IRA administrator withdrew funds from Rick's account on 12/23, should be reflected on 1099-R for that year and count towards RMD

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### Year-end QCD – IRA Checkbook

Rick has an IRA checkbook to write checks on his IRA account. Rick has not taken his entire RMD. He writes and mails his IRA check to the animal shelter on 12/26. The shelter receives the check on 12/28, deposits it on 12/30. The IRA administrator withdraws the funds on 1/3.

Result?

- ✓ Likely IRA administrator will count as a January QCD, and appear on the next year's 1099-R – and Rick has an RMD problem for the previous year



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### QCD for CGA?

Cindy, 75, wants to fund \$100,000 CGA to benefit her local art museum. Most of Cindy's assets are in her IRA.

- ✓ Can Cindy use a QCD to fund the IRA?  
Not currently.
- ✓ Can Cindy use IRA assets to fund the CGA?  
Yes. It's a taxable withdrawal and the gift generates a charitable deduction. If she still itemizes the taxes are partially offset.

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### Lifetime CGA Funded with IRA Assets

- Cindy withdraws \$100,000 from her IRA and funds the CGA. Cindy's tax bracket is 24%.
  - ✓ Income tax due = \$24,000 (\$100,000 x 24% tax bracket)
  - ✓ Cindy's income tax deduction from the CGA is \$43,459
  - ✓ Tax savings = \$10,430 (\$43,459 x 24% tax bracket)
  - ✓ Net tax owed = \$13,570 (\$24,000 - \$10,430)
- When might this make sense?
  - ✓ Wants to make gift and IRA is best source
  - ✓ Wants to reduce IRA balance (reduce future RMDs)
  - ✓ Doesn't need RMD but might need cash flow in future

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### Blended Gifts Including QCDs

- QCDs can be great outright gift component of a blended gift; *remember, it can satisfy a pledge*
- Couple with testamentary gifts: beneficiary designations or bequest (include shortfall provision)
- Incorporate other means of giving (cash and appreciated stock) and ways to give (life income plans, retained life estate)
- *Show a donor how to give more than they thought they could, and see the benefit during their lifetime*

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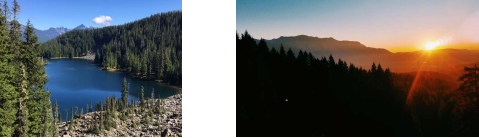
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**Closing Thoughts**

Given tax-advantaged nature, and fewer itemizers, QCDs should continue to grow in popularity

Stay alert to nuances to help donors avoid unintended tax consequences



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**Questions?**



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**Still Have a Question?**

**Contact:** Edie Matulka  
**Email:** [ematulka@pgcalc.com](mailto:ematulka@pgcalc.com)

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