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## **Maximize Impact: Unveiling the Power of QCDs**

**Date: February 29, 2024**

**Time: 1:00 – 2:00 Eastern**

**Presenter: Jeff Lydenberg**

**Vice President, Consulting**



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## Agenda

### Define Terms

#### 1. The Outright QCD

- Eligibility
- Limitations

#### 2. QCDs for Split Interest Gifts

- Eligibility
- Limitations





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# Part 1: Outright Qualified Charitable Distributions



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## Define Terms

- Qualified Charitable Distribution (QCD)
- Also known as a charitable IRA rollover
- Many types of “rollovers” with IRAs
- The term QCD known to financial and legal professionals

### 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 reduces the donor's tax by satisfying the donor's required minimum distribution



### Individual Retirement Account (IRA)

- Tax-free contribution
- Tax-free growth
- Taxable on withdrawal
- Self-directed by account owner
- Not sponsored by employer
- Typically, employer-sponsored funds (401(k), 403(b)) rolled into IRA at separation or retirement

### 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

### 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





### **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 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





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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 donor
- No credit or recognition to IRA administrator





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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



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# Part 2: Expansion of the QCD to life income gifts

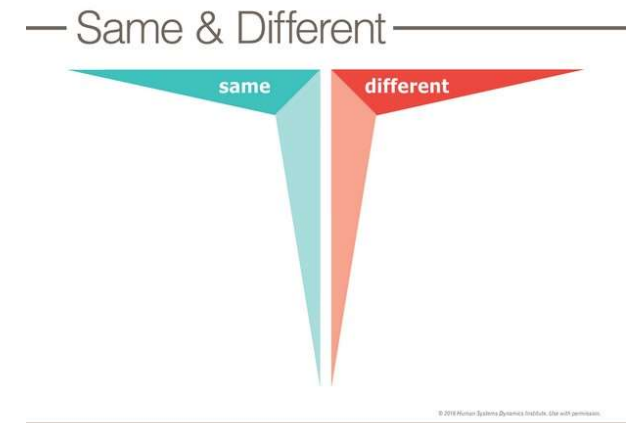


**Things that are the same:**

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



1. Limited to \$53,000 (2024) reduces amount available for outright QCD
2. Only plan owner and spouse can be income beneficiaries
3. Not certain each spouse can fund \$106,000 split-interest gift
4. One-time lifetime election (no carryforward)
5. Can fund charitable gift annuity and/or charitable remainder trust
6. No combination of funding assets, or trust additions, allowed
7. No income tax charitable deduction
8. Date of gift?
  - When asset transferred out of the donor's account
  - Mailbox rule does not apply

## 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



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## All Three 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 \$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

- Can two spouses use separate IRAs to fund one two-life CRT?
  - Seems 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)





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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)
<b>BENEFITS:</b>		
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
<b>After tax income</b>	<b>\$ 2,699</b>	<b>\$ 3,232</b>
<b>Total tax savings</b>	<b>\$ 12,720</b>	<b>\$ 5,354</b>

## 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

## Next Steps

- Create QCD compliant CGA contract with non-assignability clause
- Review state registrations
  - 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

## Still Have a Question?



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