

Individual Retirement Account (IRA) Transfer to Charity

Due to passage of the Tax Cuts and Jobs Act (TCJA) in 2017, only a small percentage of taxpayers will continue to itemize deductions, including the deduction for charitable contributions. For older taxpayers, there remains a tax-advantaged way to give to charity. Did you know that certain taxpayers can make a gift to a favorite charity directly from an IRA?

This option, made permanent in 2015 through the PATH Act (Protecting Americans from Tax Hikes), may be even more advantageous due to TCJA. This provision, sometimes referred to as an IRA charitable rollover, allows a taxpayer (who is over the age of 70 ½) to transfer up to \$100,000 annually to a qualified charity or charities from their IRA account(s). This is known as a Qualified Charitable Distribution (QCD). If a taxpayer requests a QCD prior to taking their IRA's required minimum distribution (RMD), there is no income tax on the withdrawal from their IRA and it will count towards the taxpayers RMD! For many taxpayers, this will reduce both federal and state taxes, and may even lower the cost of income-based Medicare premiums.

The requirements and limitations are as follows:

- The IRA owner must be at least age 70½ on the date of the distribution. (Note that this rule is different from the timing on when provisions that begin “in the year the IRA owner turns 70½.”)
- Distributions can only be made from traditional or Roth IRAs. (There is no particular benefit to transfers from Roth IRAs, however.) Distributions from 403(b) plans, 401(k) plans, pension plans, and other retirement plans are ineligible for the tax-free treatment. See a strategy for donors with 403(b) and 401(k) accounts in the example below.
- Annual transfers are limited to \$100,000 per account holder. Spouses who both hold IRAs can request QCDs up to \$100,000 each.
- Transfers from an IRA must be made directly from an IRA administrator to a public charity that is not a supporting organization. Transfers to donor-advised funds and private foundations, except in narrow circumstances, are not Qualified Charitable Distributions for purposes of the IRA Rollover.
- IRA gifts can be used to create or add to endowment funds at the Christian Church Foundation if the related gift agreement does NOT allow the donor to make changes to the donor-selected charitable beneficiary(ies). This varies from the Foundation's normal endowment fund agreements, so please contact us before requesting a QCD to us.
- Under current law, life-income gifts (charitable gift annuities or charitable remainder trusts) can NOT be funded with QCDs.

- Donors must obtain written substantiation of each QCD from the recipient charity. Since these gifts are excluded from income (and therefore not tax deductible), the proper format used to acknowledge them differs from a charitable receipt letter or typical statement of giving.

Charitable individuals who hold their retirement assets in 401(k) or 403(b) accounts are encouraged to think about whether they would benefit by transferring their retirement accounts into an IRA. Because RMDs are calculated for IRA, 401(k) and 403(b) accounts based on the assets held in those accounts on December 31 of each year, a the rollover of a donor's 401(k) or 403(b) account to an IRA account must be completed before the year of the transfer in order for a charitable gift from that account (a QCD) to satisfy the donor's RMD.

For example, 71 year old Mary lives in Indiana and is a retired church employee. She has already satisfied her 403(b) account's RMD for 2019, but having talked with her tax advisor about the IRA Charitable Rollover opportunity, she is considering transferring assets held in that retirement account (her 403(b)) to an IRA account. She currently holds \$250,000 in her 403(b) account. The IRS tables show that Mary's life expectancy next year (at age 72) will be 25.6 years, so she estimates next year's RMD will be \$9,765.63 (\$250,000/25.6 years). Mary makes annual gifts of \$5,000 to her congregation. Her Federal tax rate is 24%. After looking at IRA investment opportunities and returns, Mary decides to roll assets held in her 403(b) account to an IRA. She completes this transfer before the end of 2019. In 2020, she will request a QCD from her IRA administrator for \$5,000 and will receive the rest of her RMD as income. By making her gift in this manner, Mary will save federal taxes of \$1,200 (24% of her gift) and Indiana taxes of \$161.50 (3.23%). Mary is delighted by these tax savings, and begins to think about whether to use her savings for gifts to her grandchildren or a larger charitable gift next year. Mary's congregation has not received other direct IRA transfers as gifts, so Mary shares information with them about how to properly acknowledge her gift.

BE AWARE: To assist IRA holders in not forgetting to take their RMDs (an oversight that has a very high tax penalty) many IRA administrators offer to automatically distribute the annual RMD to the IRA owner. In order for Mary's charitable gift to count as her RMD, she should request the QCD to her congregation before she receives her RMD. Charitable gifts (QCDs) made after a RMD has been distributed will still be tax-free distributions, but will not reduce the taxable income generated by the RMD.

Some IRA administrators provide the IRA owner with a 'checkbook' that can be used to withdraw funds from their IRA. In order for checkbook withdrawals to count against the account owner's RMD, those checks should *not only* be written and mailed prior to year-end, but also must be presented by the check's recipient bank to the IRA administrator for payment before year-end. For donors over 70½, using an IRA as the source for charitable gifts often has multiple benefits. These benefits include reduced income taxes and can also include lower income-based costs for expenses like Medicare or lower taxes on Social Security benefits. Making IRA gifts early in the year – before the RMD has been paid - helps ensure all available benefits can be realized.

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The following are sample documents that can be used to request a QCD from an IRA Administrator, inform a charity of an expected QCD and the language for an appropriate receipt for the QCD.

SAMPLE DOCUMENTS

Sample Request from Plan Owner to Administrator for Charitable Distribution from Individual Retirement Account (IRA Administrators may also provide a form for this request – donors should check with their Administrator)

Re: Request for Charitable Distribution from Individual Retirement Account

Dear IRA Custodian/Administrator:

As the owner of IRA Account No. _____ that is in the custody of your organization, I request that you transfer from that account the sum of \$ _____ to _____ (charity name) located at _____ (address). The Taxpayer Identification Number for _____ (charity name), a public charity is _____.

It is my intention to make a Qualified Charitable Distribution (QCD) to this charity from my IRA, which may fulfill part or all of my IRA required minimum distribution for this year.

This letter is sufficient authorization for you to make this QCD gift. However, if you require any further documents, please promptly e-mail those to me.

In your transmittal to the charity, please memorialize my name and address as the donor of record in connection with this transfer. Please copy me on your transmittal.

(Optional paragraph for requests occurring close to year-end) It is my intention to have this transfer qualify for exclusion during the current tax year. Therefore, it is imperative that this distribution be postmarked no later than December 31, 20____.

If you have any questions or need to contact me, I can be reached at _____ (telephone). Thank you for your assistance in this matter.

Sincerely, (IRA Owner)

**Sample Letter from Donor Informing Charity of Forthcoming Qualified Charitable
Distribution from Custodian/Administrator**

Dear Sir or Madame:

It is my pleasure to inform you that I have requested a qualified charitable distribution (QCD) from my Individual Retirement Account payable to your organization in the amount of \$_____ from my plan custodian/administrator, _____ (name of custodian/administrator).

It is my intent to comply with Sec. 408(d)(8) of the Internal Revenue Code of 1986, as amended, in connection with this gift.

Accordingly, upon your receipt of payment from my custodian/administrator, please send me a contemporaneous written acknowledgement that states the date of my gift, the amount of my gift, that no goods or services were transferred to me by your organization in consideration for this gift, and that my gift will not be placed in a donor advised fund, used to establish a charitable gift annuity or charitable remainder trust or transferred to a supporting organization as described in section 509(a)(3).

If you have any questions or need to contact me, I can be reached at _____ (telephone).

Sincerely,
(Donor)

Sample Contemporaneous Written Acknowledgement from Charity to Donor

Dear (Donor):

Thank you for your gift in the amount of \$ _____ from your Individual Retirement Account (IRA) on _____ (date).

We are writing to acknowledge that we received your gift directly from your plan custodian/administrator and that it is your intention for all or a portion of your gift to qualify as a Qualified Charitable Distribution from your IRA under section 408(d)(8) of the Internal Revenue Code. As such, this gift is not tax deductible for federal income tax purposes.

In that connection, we warrant to you that our organization is qualified under Section 170(b)(1)(A) of the Internal Revenue Code and that your gift was not transferred to a donor advised fund, a charitable remainder trust, in exchange for a charitable gift annuity or to a supporting organization as described in section 509(a)(3). We further acknowledge that no goods or services were issued to you in exchange for this gift.

Please retain this letter with your important tax documents and provide a copy to your tax preparer.

Thank you for your generous contribution to our organization.

Sincerely,
(Charity)