Retirement Accounts: IRAs and Charities

Charitable IRA Rollover

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Individual Retirement Accounts (IRAs)

• The IRA or Individual Retirement Account was first introduced in the Employee Retirement Income Security Act of 1974 (better known as ERISA).

• When assets are contributed to a traditional Individual Retirement Account (IRA), they are grown on a “tax-deferred” basis, meaning the IRA owner doesn’t pay income tax on the assets as they grow within the IRA, but income taxes will be owed when assets are withdrawn from the IRA. The Roth IRA is an exception.

• Individuals must begin to withdraw assets from their IRAs in the form of required minimum distributions (RMDs) upon reaching age 70.5.

• Assets have grown in IRAs in excess of $6 Trillion from 2000 to 2018.

• Depending on an individual’s wealth, these assets make up a larger and larger portion of a person’s assets.

• Most charitable donors use cash or marketable securities to make their gifts, so gifts from IRAs represent a new tax efficient resource for charitable giving.
## Individual Retirement Accounts

The required minimum distributions (RMDs)* in five year increments after age 75 from all of an individual’s retirement accounts are estimated to be as follows:

<table>
<thead>
<tr>
<th>Age of Account Owner</th>
<th>Required Payout</th>
</tr>
</thead>
<tbody>
<tr>
<td>70.5</td>
<td>3.65%</td>
</tr>
<tr>
<td>75</td>
<td>4.37%</td>
</tr>
<tr>
<td>80</td>
<td>5.35%</td>
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<tr>
<td>85</td>
<td>6.76%</td>
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<tr>
<td>90</td>
<td>8.75%</td>
</tr>
<tr>
<td>95</td>
<td>11.63%</td>
</tr>
<tr>
<td>100</td>
<td>15.88%</td>
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</tbody>
</table>

*Generally, a RMD is calculated for each account by dividing the prior December 31 balance of that IRA or retirement plan account by a life expectancy factor that the IRS publishes in Tables in Publication 590-B.
Charitable IRA Rollover Requirements

The Charitable IRA Rollover allows for qualified charitable distributions (QCDs) to be made from IRAs. Congress made the Charitable IRA Rollover permanent in 2015. (2015 PATH – 12.20.15)

Requirements:

• IRA owner must be 70 ½ before the QCD date.
• Maximum allowed each year is $100,000 per taxpayer ($100,000 each for married couples if QCDs made from IRAs owned individually).
• Gifts to qualified charities from IRAs count toward individual’s RMD, but the QCD is NOT counted as taxable income.
• The Charitable IRA Rollover distribution CANNOT be counted as a charitable deduction for income tax purposes.
Charitable IRA Rollover Requirements (Continued)

• Ideally, the Charitable IRA Rollover should be deposited by the charity by December 31st.
• The Charitable IRA Rollover is an outright gift so no material benefits can be received in return.
• Donors need to receive a receipt form the charity for the QCD from a Charitable IRA Rollover.
• Distributions may not be used to fund life-income gifts such as charitable gift annuities, charitable remainder trusts, or pooled income funds.
• Retirement assets in 401(k) and 403(b) accounts, and ongoing SEP or SIMPLE IRA plans do not qualify.
• Distributions may only be made to 501(c)(3) tax exempt organizations and cannot be made to donor advised funds, private foundations, or supporting organizations.
Individual Tax Planning

BACKGROUND:

• The Tax Cut and Job Act of 2017 – H.R. 1 increased the standard deduction so the number of itemized returns has gone down dramatically. To receive the tax benefit of a charitable gift to a qualified charity, an itemized return must be filed.

• Under the 2017 Tax Act most itemized deductions have been eliminated or reduced. Allowable deductions include:
  - home mortgage interest (maximum debt - $750,000),
  - charitable gifts, and
  - up to $10,000 of state and local income taxes and property taxes.
Individual Tax Planning (Continued)

• Most non-itemizers who qualify for a Charitable IRA Rollover will benefit by making their charitable gifts from their IRAs because they won’t pay taxes on the QCD*.
• To initiate a QCD, the donor should contact their IRA administrator and provide the administrator with the legal name of the charity, the address, and the charity’s taxpayer ID.
• Ideally, the Charitable IRA Rollover should be deposited by the charity by December 31st so early planning is highly recommended. If the donor uses their own checkbook for their IRA withdrawals, make sure the donor makes the check out to the charity and that the check is deposited and cleared by December 31.
• The taxpayer needs an acknowledgement from the charity for the QCD from the IRA.
• Since retirement assets in 401(k) and 403(b) accounts, and ongoing SEP or SIMPLE plans do not qualify, consider rolling these funds into a new or existing IRA and using the IRA Charitable Rollover to make charitable gifts.
• Donors may make pledge payments using QCDs from their IRAs. QCDs from IRAs are not treated in the same way as distributions from Donor Advised Funds.

* It is very important to consider state law when advising clients on the IRA.
LPFCH’s Perspective

• Our goal in working with a donor is to help them make their gifts as meaningful and impactful as possible. This means not just identifying the right area to support, but also helping them identify the right asset to use to provide support. To accomplish this, we:
  • Educate our staff of professional fundraisers so they have a sophisticated understanding of these rules,
  • Collaborate with donors’ advisors (attorneys, CPAs, financial advisors) to identify the most tax-efficient way for a donor to make their gift, and
  • Continue to be creative and resourceful in the ways gifts are structured.

• By maximizing the impact of a gift, we are not only providing great service to our valued donors, but we are also maximizing our ability to treat all the patients who need our services no matter their ability to pay, and discovering new breakthroughs that will dramatically change the course of treatments for life-threatening diseases.
“It’s a no brainer!”
- LPFCH donor