



NUTS & BOLTS SESSION:

Charitable Gifts Using Qualified Charitable Distributions (QCD) from an Individual Retirement Account (IRA)

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DISCLAIMERS

- **“Nuts & Bolts” definition: The basic practical details**
- **This session only covers how people can make charitable gifts from an IRA. If you need other details, please consult with a CPA, lawyer or qualified wealth advisor.**

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Alphabet Soup – Washington Loves Initials and Acronyms

- **IRA (Individual Retirement Account)**
- **RMD (Required Minimum Distribution)**
- **QCD (Qualified Charitable Deduction)**
- **PPA (Pension Protection Act)**
- **PATH (Protecting Americans from Tax Hikes) Act**
- **TCJA (Tax Cuts and Jobs Act)**
- **SECURE (Setting up Every Community Up for Retirement Enhancement) Act**
- **CARES (Corona Virus Aid Relief and Economic Security) Act**
- **DAF (Donor Advised Fund)**

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IRAs and Significant Tax Law Changes – A Brief History

- **December, 2006 – Pension Protection Act (PPA)**
- **December, 2015 – Protecting Americans from Tax Hikes (PATH) Act**
- **December, 2017 – Tax Cuts and Jobs Act (TCJA)**
- **January, 2020 – Setting Every Community Up for Retirement Enhancement (SECURE) Act**
- **March, 2020 – Coronavirus Aid Relief and Economic Security (CARES) Act**

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What is a QCD (Qualified Charitable Distribution)?

- A distribution from an IRA directly from custodian (not OWNER) to charity
- Goes toward satisfying part or all of a donor's Required Minimum Distribution
- Only from an IRA, NOT a 401(k) or 403(b)
- Available to individuals 70 ½ or older (even after the SECURE Act)
- Maximum of \$100,000 QCD per year
- "Tax Neutral" Intent

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Who Should Consider Making a QCD?

- Charitably-Minded Individuals over 70 ½
- Non-Itemizers
- Donors who have maxed out their deductible charitable contributions
- Donors subject to "tax friction"

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Ways of Making a Charitable Gift From an IRA Without a QCD

- Donor takes a distribution from an IRA, (and pays tax on it), then gifts it to charity (and can take a charitable income tax deduction)
- Donor takes a distribution from an IRA, gifts it to a DAF, then makes grants to charity over time
- **AFTER DEATH:** Charity or permanent endowment at a charity is named as the beneficiary of an IRA

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Ways of Making a Charitable Gift From an IRA With a QCD

- Gift goes directly from IRA to charity(ies)
---OR---
- Gift goes directly from IRA to a fund at a community foundation such as a designated fund, a field of interest fund, or a scholarship fund. May not be gifted to a DAF because the donor may not retain advisory privileges.

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How a Typical Designated Fund Works for Donors - Overview

- Similar to a DAF, but specific charities and distribution rules are enumerated in the fund agreement
- Particularly good for donors who:
 - Have specific charities they regularly support and will continue to support in future years
 - Have minimum gifts to these charities that the donor knows they will want to make on an annual basis well into the future
 - Donors who want additional oversight for their gifts

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How a Typical Designated Fund Works for Donors - Steps

- Choosing an annual amount to go into the fund at a community foundation from a QCD
- Name the specific charities to be benefited
- Decide if it is an endowment or spent out over time
- Determine how much will be distributed annually
 - If an endowment, it will be the Foundation's current spending policy percentage
 - If not an endowment determine how and when and what amounts will be distributed

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How a Typical Designated Fund Works for Donors – Steps (continued)

- If not an endowment, decide how the fund terminates
 - At death of the donor
 - Other trigger mechanism
 - Simply spends itself out
- Little concern for the donor if he/she changes their mind about a particular fund - simply stop making contributions to the fund

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Advanced Example of a QCD to a Designated Fund

- Annual Amount: Donor maxes out and plans to put in \$100,000 as a QCD annually for the next 10 years
- Naming the Charitable Beneficiaries: Donor chooses 14 different charities
- Annual Distributions: Non-Endowment style fund.
 - \$100,000 per year
 - In the order and amounts per the Exhibit page
 - Once a charity receives its full amount, funding moves to the next charity on the list
- Termination of the Fund
 - 10 years passes, all gifts to the Fund have been made and all charities have received their full amount, or
 - Death of the Donor – Fund receives the balance of the IRA, specified amounts go to the selected charities, balance in the Fund transfers to a permanent endowment and the Fund closes, or
 - Insufficient Funds to make the prescribed gifts – beneficiaries on Exhibit B receive a pro rata distribution of remaining Fund assets and the Fund closes

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Closing Thought

- **When taking an IRA distribution, recognizing the income and putting it into a DAF can still be good for the donor**
- **Donors should always consult with a tax professional, but a DAF can still be very useful for gifts from an IRA if:**
 - **The donor can use the tax deduction,**
 - **The distribution from the IRA used for the gift would not cause tax friction or other adverse tax issues, and**
 - **The donor wants to retain the right to advise the sponsoring organization on the ultimate charitable beneficiaries**

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Questions & Answers

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THANK YOU!



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