

IRA Charitable Rollovers Remain Beneficial

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As the end of 2020 nears, now is an opportune time to remind donors that IRA charitable rollovers remain a great charitable gift. This blog post will highlight basic information on IRA charitable rollovers, the effects of recent law changes and how charities can continue to promote IRA charitable rollovers.

IRA Charitable Rollover Rules

IRA charitable rollovers, also known as qualified charitable distributions (QCD), are direct transfers of funds from the donor's IRA custodian to a qualified charity that may satisfy the donor's required minimum distribution (RMD). IRA owners who have reached age 70½ may transfer up to \$100,000 annually. Although, the donation does not qualify for a charitable deduction, the donor may satisfy up to \$100,000 of their IRA's required minimum distribution and reduce their taxable income.

Gifts from an IRA rollover may be made to public charities and certain conduit foundations. IRA rollovers are not permitted to supporting organizations, donor advised funds or private foundations.

Currently, IRA charitable rollover distributions may not be used to fund charitable remainder trusts, pooled income funds or charitable gift annuities. There is optimism that IRA charitable rollovers may be expanded to include charitable remainder trusts and charitable gift annuities under the Legacy IRA Act.

CARES Act and SECURE Act Effects on IRA Charitable Rollovers

Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the required minimum distribution was waived for IRA and other qualified retirement plans for 2020. The COVID-19 pandemic brought a substantial decline in markets near the beginning of 2020. This occurred after RMDs were calculated based on December 31, 2019 plan values. Although required minimum distributions were waived for 2020, donors may still use IRA funds to make an IRA charitable rollover.

Under the Setting Every Community Up for Retirement Enhancement Act (SECURE Act), the required minimum distribution starting age was increased from 70½ to 72 years old for IRA owners reaching age 70½ in 2020 and beyond. If the retirement account holder turned age 70½ in 2019, the increased starting age rule is not applicable.

There has been some confusion about how IRA charitable rollovers have been impacted by the recent changes with the CARES Act and SECURE Act. The simple answer is that IRA charitable rollover requirements remain unchanged, the required age to qualify for IRA charitable

rollovers remains at 70½.

How Charities Can Still Promote IRA Charitable Rollovers

Many IRA owners wait to take their required minimum distribution in the 4th quarter of each year and are likely to contact tax or financial advisors to discuss the potential tax implications. Even in 2020, this remains a tax favored gift due to the so-called “universal deduction.” This is a good time for gift planners to reach out to appropriately aged donors with IRAs.

Although required minimum distributions were waived in 2020 under the CARES Act, the QCD remains a convenient charitable gift for donors. The gift from an IRA charitable rollover does not impact the donor’s cash flow or other assets and allows for the mission of the charity to be furthered in the year of the gift. Non-itemizing donors will appreciate their other accounts remaining untouched, while still providing support for their favorite charity. Donors itemizing charitable deductions will be pleased to know that the IRA charitable rollover does not impact other charitable deduction limits.

IRA owners should be reminded to contact their IRA custodian early if they wish to make an IRA charitable rollover. To qualify, the distribution to the charity must be made directly from the custodian by check or electronic transfer. Any distribution made to the IRA owner, then transferred to the charity will not qualify as an IRA charitable rollover.

However, a check made payable to the charity, but sent to the donor for forwarding to the charity will qualify. The check must be issued by the IRA custodian, made payable to the charity. The donor must deliver the check to the charity, with the check clearing prior to December 31 of the year of the gift. Conservative guidelines suggest allowing for a two-week processing time to ensure the expected outcome.

The time is now to facilitate IRA charitable rollovers. IRA charitable rollovers must be completed by December 31, 2020 to qualify as a gift in the 2020 tax year. Donors can now be encouraged to contact their IRA custodian for the necessary forms. The donor can start the process by sending a letter to the IRA custodian requesting an IRA charitable rollover.



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