Consider...

BIGGER GIFTS TO CHARITY FROM IRAs IN 2020

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Congress and the president have given us a limited-time offer to deduct cash gifts to public charities up to a total of 100% of adjusted gross income (AGI). The offer is good for gifts made in 2020.

This change was made by the CARES Act that became law in March 2020. Before this change, the annual deduction limit for gifts of cash was 60% of AGI. In an apparent effort to encourage gifts to public charities as the 2020 pandemic disrupts the economy and increases demand for the services of charitable organizations, lawmakers added this provision to the CARES Act to open the door to larger cash gifts to charity in 2020.

You may have cash available to give to charity, but for reasons discussed below, you may want to consider using a distribution from an IRA or other retirement plan to make the gift to charity. This could appeal to people with lower to modest income who might not otherwise be able to deduct a large contribution to charity. People with substantial holdings may find this to be a very tax-efficient way to meet their giving goals. As with any tax planning, the results can vary depending on a number of factors, so careful planning is needed.

Before going into more detail about this opportunity, it is worth recalling that for people over the age of 70 ½ there is already a tax-advantaged way to make gifts to charity from IRAs: qualified charitable distributions, or QCDs. If you are eligible to make a QCD, that may be the best way for you to make a gift to charity (at least the first $100,000) from your IRA.

QUALIFIED CHARITABLE DISTRIBUTIONS

If you are over 70 ½ and you own one or more IRAs, you can direct that up to $100,000 per year be distributed directly to charity. If you are married filing jointly and your spouse is over 70 ½ and owns an IRA, your spouse can also make a QCD of up to $100,000. This is a great way to make substantial gifts to charity, if all the requirements are met. The QCD has the additional benefit of satisfying in whole or in part the required minimum distributions that generally start for the year you attain age 72.

To meet the requirements of a QCD, the money must transfer directly to the charity. You do not pick up the income on your tax return because the money is paid directly to charity, not to you. The charity must be a qualified public charity (donor-advised funds, supporting organizations, and many private foundations will not qualify for this purpose).

Now that the CARES Act has suspended required minimum distributions for many plan participants and IRA owners for the year 2020, people who have been using QCDs to satisfy some or all of their required minimum distributions each year may decide not to make a QCD in 2020. Other people will make a QCD even though there is no required distribution from an IRA for 2020 because they want to support the work of charitable organizations in the face of an increased demand for services caused by the pandemic.

WHAT'S NEW FOR 2020

Under the CARES Act, cash gifts to qualified public charities in 2020 can be deducted up to 100% of AGI. Donor-advised funds, supporting organizations, and many private foundations are not qualified public charities for purposes of the 100% limit.

The 100% limit creates a significant, but temporary, opportunity to make gifts to charity with distributions from IRAs or qualified retirement plan accounts in 2020.

Unlike QCDs, you do not need to be 70 ½ to take advantage of this higher deduction limit, and the deduction is not limited to $100,000, so this opportunity is available to more people and makes bigger gifts possible.

In many cases, it will not be practical for participants in qualified retirement plans to take advantage of this opportunity because they generally do not have the same flexibility for taking distributions as IRA owners typically do. Also, the 10% additional tax that applies to many distributions to plan participants and IRA owners under 59 ½ should be considered.

This raises some interesting possibilities for planning. For example, it may be possible for a 65-year-old IRA owner to take a distribution of any amount from the IRA, contribute 100% of the distribution to a qualifying charity, and get a deduction against his or her federal income taxes for the full amount of that contribution, whether it is $50,000 or $500,000. Note that state income taxes may apply.

If you are over 70 ½, consider using a combination of a QCD and the 100% limit in 2020. To use another simple example: If you had a $250,000 IRA, and you wanted to give that $250,000 to charity in 2020, you could consider making a QCD to transfer $100,000 to charity, and then taking a distribution of the other $150,000 in cash to give to charity. The $100,000 transferred via the QCD is excluded from your income, and you may be able to deduct up to 100% of the $150,000 contribution from your federal income using the 100% limit. Again, the income created by the $150,000 distribution from the IRA may be subject to state income tax.

Did you know? Although the QCD and CARES Act provisions do not apply to donor-advised funds, community foundations are qualified public charities and gifts to scholarship, designated, agency endowment and other fund types are eligible. Ask your tax advisor if these opportunities are right for you.

You must file an election to use the 100% limit, in addition to meeting the other requirements. Any of the cash contribution that is not deductible in 2020 can be carried forward for five years, subject to the limitations that apply in those years.

Qualified retirement plans and IRAs were not designed to be sources for charitable giving, and most people, of course, will use them for their intended purpose: to fund retirement. But, if you have other resources to rely on for retirement and are looking for a way to support your favorite charities, the 100% limit may present a great (temporary) opportunity to save taxes and benefit charity in a big way.

This article has been edited for length. The complete article can be read at mcdonaldhopkins.com.