



*The Colonial Williamsburg Foundation*

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## IRA Charitable Rollover the *Qualified Charitable Distribution*

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## **IRA Charitable Rollover** *the Qualified Charitable Distribution*

### **What is an IRA Charitable Rollover? – Making a Qualified Charitable Distribution.**

The IRA Charitable Rollover, or qualified charitable distribution (QCD), is a special provision allowing donors at age 70 ½ and older to exclude from taxable income certain transfers of Individual Retirement Account (IRA) assets that are made directly to public charities, including The Colonial Williamsburg Foundation. Even for those who do not itemize, a QCD is equivalent to an income tax deduction.

Many Foundation donors have used the IRA Qualified Charitable Distribution to support Colonial Williamsburg with tax-wise gifts ranging from \$100 to \$100,000.

### **Does a contribution to an IRA after 70 ½ affect the Qualified Charitable Distribution?**

It may, but there are numerous strategies that can help an IRA owner benefit from QCDs. *Consult a qualified advisor while considering and before making a gift in this situation.*

The SECURE Act that took effect in 2020 did away with the age limit of 70 ½ for traditional IRA contributions, allowing individuals age 70½ or older to make contributions from earned income to an IRA. But for those who make both QCDs and deductible IRA contributions, the rule limits the portion of the QCD that is excluded from income. IRA owners must now reduce their intended QCDs by any deductible contribution amounts made into their IRAs after age 70½ to the extent they have not already been used to reduce their QCD.

### **Who can benefit from using the IRA Charitable Rollover to make a gift?**

- Persons with significant assets in an IRA
- Persons who have “maxed-out” their charitable deductions. (Because a charitable rollover is not included in taxable income, an IRA rollover gift does not count toward the 50% of adjusted gross income limitation on charitable gifts of cash.)
- Persons who do not qualify or choose not to itemize their deductions.

## **What gifts qualify for an IRA Charitable Rollover?**

A gift that qualifies, technically termed a “qualified charitable distribution,” is:

- Made by a donor age 70 ½ or older
- Transferred from a traditional IRA, or certain Roth IRAs, *directly* to a permissible public charity, such as The Colonial Williamsburg Foundation (*If giving in this manner, please tell your IRA custodian to name you as the donor on the transfer, and if your gift is intended for a particular area have that specified as well.*)
- The asset must be transferred out of the IRA account during the applicable tax year.

## **How does this help me?**

An IRA Charitable Rollover makes it easier to use IRA assets, during your lifetime, to make charitable gifts and to avoid both taxation and an increase in your adjusted gross income.

## **Why will lifetime IRA gifts be easier?**

Under current law, withdrawals from traditional IRAs and certain Roth IRAs are taxed as income, even if they are immediately directed to a charity. The donor receives a tax deduction for his or her donation, but various other federal, and sometimes state, tax rules can prevent the deduction from fully offsetting this taxable income. As a result, many donors have chosen not to use IRA assets for lifetime gifts. For those age 70 ½ and older, the IRA Charitable Rollover eliminates this problem.

## **Why are Roth IRAs included? Aren't withdrawals from a Roth IRA tax-free?**

Withdrawals from a Roth IRA may be tax-free only if the account has been open for longer than five years or if certain other conditions apply. Otherwise, withdrawals are taxed as if they came from a traditional IRA. Therefore, only certain Roth IRAs could benefit from an IRA Charitable Rollover. Please consult with your advisor.

## **Do I have to pay state or local taxes on my IRA distribution?**

You may – states and municipalities differ on whether you need to include the distribution in your taxable income. Check with your tax or financial advisor, or your taxing authority, to be sure.

## **Is an income tax deduction also available?**

No. The gift would be excluded from income, so providing a deduction in addition to that exclusion would create an inappropriate double tax benefit.

## **Is there a limit on the amount that can be given?**

Yes, there is a limit. An individual taxpayer's total IRA Charitable Rollover gifts cannot exceed \$100,000 per tax year.

## **My spouse also supports Colonial Williamsburg. Can we both take advantage of the IRA Charitable Distribution?**

Yes. The amount that can be excluded from income is limited to any amount up to \$100,000 per taxpayer year. For a married couple to have \$200,000 of QCDs for the year, each spouse must have IRAs worth at least \$100,000 and give \$100,000 from his or her IRAs.

## **What about the Required Minimum Distribution (RMD)?**

Those age 72 and older must make an annual withdrawal from their IRA known as a required minimum distribution or RMD, that is includable in their taxable income. If you have not already taken your required minimum distribution in a given year, a QCD can count toward satisfying this requirement.

The IRS applies the first dollars you withdraw from your IRA toward your RMD. To take full advantage of the IRA Charitable Rollover, have your IRA administrator distribute your first withdrawals from your IRA directly to a qualified charity. By doing so, you will avoid both an increase in gross income and taxation on those withdrawals.

## **What if a donor contributes more than \$100,000 to a qualified charity from an IRA?**

The first \$100,000 distributed from an IRA is excluded from taxable income under the QCD provision, the remaining amount would be recognized as income and taxable. The donor may still contribute an amount in excess of \$100,000 and claim a charitable contribution; however, the extent to which that amount can be deducted from the individual's income will be determined following general rules about percentage limitations and whether they itemize deductions.

## **On what date is the IRA Charitable Rollover considered to have been made?**

On the date that the account administrator distributes funds directly from the IRA account to The Colonial Williamsburg Foundation via institutional check or wire transfer. Please note that the delivery of a check from an IRA account checkbook to a charity does not satisfy the IRS requirement of a distribution from that IRA account. The qualified charitable distribution is considered to have been made not on the date of mailing or delivery, but on the date the funds are shown to have been withdrawn from the account as reported on your 1099-R.

If you have not already withdrawn in whole or part your required minimum distribution (RMD) from your IRA, then a qualified charitable distribution (QCD), on the date that it is transferred out of your IRA account, will satisfy your RMD to the extent of the required distribution up to \$100,000.

## **Can other retirement plans, such as 401(k) and 403(b) accounts, be used?**

No. However, it may be possible to make a tax-free transfer from such other accounts to an IRA, from which a charitable rollover can then be made. Please consult with your advisor.

### **Can a gift be made to any charity?**

No. Excluded are:

- Donor advised funds
- Supporting organizations
- Private foundations

### **Can a rollover gift be used to pay my pledged support to The Colonial Williamsburg Foundation?**

Yes. You can honor your gift pledge to the Foundation with one or more qualified IRA Charitable Rollover transfers of up to \$100,000 per person, per calendar year. You can direct your IRA custodian to transfer your charitable gift to the Foundation quarterly, annually or other timing that works for you. Simply have your provider indicate that the transfer is a gift from you.

### **Can a rollover gift be used to fund a Charitable Remainder Trust, Pooled Income Fund or Charitable Gift Annuity?**

No. The donor cannot receive any benefits that would reduce his or her charitable deduction. This includes life income gift payments.

### **May a charity provide benefits, goods or services in return for the contribution?**

No. Donors may not receive quid pro quo benefits. If the donor receives any benefits, goods or services from the charity that would typically reduce his or her charitable deduction, then the entire IRA rollover will fail to qualify for tax-free treatment under the QCD provision. Instead, 100% of the IRA amount distributed to charity will be included in the donor's taxable income. However, that amount would then be eligible for a charitable income tax deduction (if the donor itemizes).

### **What if a withdrawal does not meet the requirements of an IRA Charitable Rollover?**

It simply will be included in taxable income as other IRA withdrawals currently are. Contribution of the withdrawal to the Foundation will allow for a charitable deduction.

### **Is the IRA Charitable Rollover right for everyone?**

While this is a great option, other types of gifts may provide donors with more tax benefits. As with any gift planning question, donors should consult their tax professionals for specific advice. Note: Donors who cannot itemize may benefit by donating appreciated stock or mutual funds, which avoids capital gains tax.

### **Can I still make a gift with an IRA beneficiary designation?**

Absolutely! Whether or not you choose to make an IRA Charitable Rollover gift, you can still designate The Colonial Williamsburg Foundation as a beneficiary to receive IRA assets after your lifetime. The lifetime IRA Charitable Rollover is simply another option for donors who would like to see their philanthropy at work now, during their lifetime.

**If I made an IRA Charitable Rollover gift in other tax years, can I do this again for the current tax year?**

Yes. The IRA Charitable Rollover is available up to \$100,000 annually allowing individuals to make qualifying gifts every tax year and can also be used to satisfy multi-year pledges.

**If you have questions or need any assistance, please contact us at:**

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The Colonial Williamsburg Foundation cannot provide donors with tax, legal or financial advice in connection with gift and planning matters. Please consult with your advisors before proceeding with a contribution.