LEHIGH VALLEY COMMUNITY FOUNDATION

ADVISOR CONNECTION

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Five of 2022's Most-asked Questions about Qualified Charitable Distributions

Qualified Charitable Distributions, or "QCDs," are becoming a very popular financial and charitable planning tool. At the same time, QCDs are growing as the source of more and more confusion. Here are answers to the questions we've been asked most frequently this year by both advisors and donors. Be on the lookout for these and other client questions, and please do not hesitate to reach out to Lehigh Valley Community Foundation (LVCF) for assistance.

1 Is an IRA (Individual Retirement Account) the only eligible source for Qualified Charitable Distributions?

Short answer: Almost.

Long answer: An individual can make a Qualified Charitable Distribution directly to an eligible charity from a traditional IRA or an inherited IRA. If the individual's employer is no longer contributing to a Simplified Employee Pension (SEP) plan or a Savings Incentive Match Plan for Employees (SIMPLE) IRA, the individual may use those accounts as well. In theory, a Roth IRA could be used to make a QCD, but it is rarely advantageous to do that because Roth IRA distributions are already tax-free.

2 What is the difference between a QCD and an RMD?

Short answer: Quite a bit! But a QCD can count toward an RMD.

Long answer: Everyone must start taking Required Minimum Distributions ("RMDs") from their qualified retirement plans, including IRAs, when they reach the age of 72. RMDs are taxable income. The Qualified Charitable Distribution, by contrast, is a distribution directly from certain types of qualified retirement plans (such as IRAs) to certain types of charities. When a taxpayer follows the rules, a QCD can count toward the taxpayer's RMD for that year. And because the QCD goes directly to charity, the taxpayer is not taxed on that distribution.

3 Can I make a Qualified Charitable Distribution even if I am not yet required to take Required Minimum Distributions?

Short answer: Yes–within a very narrow age window.

Long answer: RMDs and QCDs are both distributions that impact retirement-age taxpayers, and it would seem logical that the age thresholds would be the same. Under the SECURE Act, though, the required date for starting RMDs was shifted from 70 ½ to 72

(which is better for taxpayers who want to delay taxable income). A corresponding shift was not made to the eligible age for executing QCDs; that age is still 70 ½ (which benefits taxpayers who wish to access IRA funds to make charitable gifts even before they are required to take RMDs).

The IRS's rules for QCDs are captured in Internal Revenue Code Section 408 and summarized on pages 14 and 15 in Publication 590-B in its FAQs publication.

4 Can I direct a QCD to my fund at LVCF?

Short answer: Yes, if it's a qualifying fund.

Long answer: While DAFs are not eligible recipients of Qualified Charitable Distributions, other types of funds at the community foundation can receive QCDs. These funds include designated funds, unrestricted funds, field-of-interest funds, and scholarships.

5 How much can I give through a QCD?

Short answer: $100,000 per year.

Long answer: A Qualified Charitable Distribution permits you (and your spouse from your spouse's own IRA or IRAs) to transfer up to $100,000 each year from an IRA (or multiple IRAs) to a qualified charity. So, as a married couple, you and your spouse may be eligible to direct up to a total of $200,000 per year to charity from your IRAs and avoid significant income tax liability.

Engage Valuation Experts When Clients Make Gifts of Complex Assets

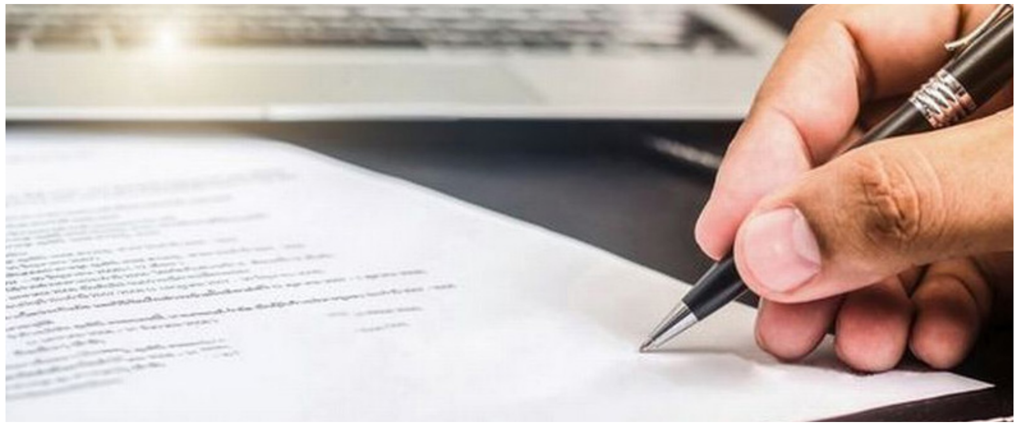
Market declines and inflation have made 2022 a more challenging year for some clients to fulfill their traditional giving objectives or early-year gifting intentions.

With annual inflation that's roughly 8% (and little relief in sight) and liquidity perhaps less than ideal, cash may be hard for donors to part with. Giving stock may also be hard to swallow, at least psychologically, in a down market. For example, assume shares of a client's stock have dropped 15% over the last quarter, from $200 per share to $170. If the client has been intending to make a $10,000 gift to charity this year, last quarter the client could have accomplished that with a gift of 50 shares. Now, though, the client will need to give nearly 59 shares to hit that $10,000 target. Realizing that it will "take more shares to do the same good," your clients may be less inclined to give depreciated stock shares to their DAFs and other charitable recipients.

So, with money tight and stock perhaps painful to give, your clients may be considering alternatives to cash or securities for their gifts to charity. You and your clients need to be aware of the rules—meaning the IRS's rules—to both meet the clients' objectives and stay in Uncle Sam's good graces.

A high-level understanding starts with the $5,000 threshold for documentation that appears on IRS Form 8283, titled Noncash Charitable Contributions. This form is required to be filed with any tax return claiming such a deduction.

Substantiation of value up to $5,000 is routine and consistent with securities (i.e., acquisition and contribution dates, fair market value of the item(s) and method of value determination). Requirements for gifts up to $500 are less stringent. Real estate, closely-held stock, art, jewelry, vehicles or baseball card collections, for example, valued at $5,000 or greater require more specifics. They're also subject to greater scrutiny if the donor is audited.



Consider the additional documentation requirements

From the donor (your client)
The type of gift, description, physical location and a third-party appraisal of value.

From the appraiser
A signed declaration on the tax form describing their qualifications and identification number; that they do this work regularly; and where they can be located.

From the recipient (The charity, sometimes known as the "donee"):
Signed confirmation of qualification, receipt, federal identification number and a commitment to document and notify if disposition occurs within three years. (LVCF is accustomed to filing this documentation for donors' gifts to funds.)

In the recent case of Heinrich C. Schweizer v. Commissioner, a donor/taxpayer was found liable for reimbursements and penalties related to a decade-old donation of art first valued at $600,000—later reduced by more than 50%—and exacerbated by the IRS's determination of participants' roles and responsibilities. Tax advisors continue to be reminded of the intricate requirements to substantiate hard-to-value gifts such as conservation easements, watching carefully to see how taxpayers can win valuation arguments with the IRS.

Your clients also need to know that meeting the requirements for declaring value rests with them and not their tax preparer, recipient organization or appraiser

So while a high-value donation of real property to your client's DAF at LVCF or a little-used auto to benefit a charity is admirable and relieves the pressure on making traditional cash or securities gifts, patrons should take a vigilant and "donor beware" approach to alternative gifting. While beauty is in the eye of the beholder, value and deductibility are determined by others.

The team at the Community Foundation is a resource and sounding board as you serve your philanthropic clients. We understand the charitable side of the equation and are happy to serve as a secondary source as you manage the primary relationship with your clients. Contact Erika Riddle Petrozelli, CPA, LVCF President and CEO at erika@lvcfoundation.org or call 610 351-5353 if you have any questions regarding the types of gifts the Community Foundation accepts.