DAF Insights for Advisors

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IRA Charitable Rollovers: Helping Clients Put a Distribution to Good Use with a Designated Fund

By Ethan Burke, Director of Development, Southeast

When the Tax Cuts and Jobs Act went into effect last year, it ignited intense interest in Qualified Charitable Distributions (QCDs). In fact, QCDs—commonly known as IRA charitable rollovers—soared by an astounding 73.8% in 2018, according to a recent survey of nonprofits.

There are a couple of reasons for the growing popularity of QCDs. This giving strategy is available only to individuals 70.5 years and older—the age at which IRA owners must start taking Required Minimum Distributions (RMDs) from their accounts. With thousands of Boomers reaching this age daily, there are more people eligible to make IRA charitable rollovers. Last year's tax law changes also dramatically reduced the number of people itemizing deductions—including the charitable deduction—from about 30% of taxpayers to an estimated 11%, according to the Joint Committee on Taxation.

Donors who make a Qualified Charitable Distribution to a favorite charity, however, don't claim the gift as a deduction. The money distributed to charity through a QCD is excluded entirely from income—allowing the client to avoid the taxes they would otherwise pay if they took the RMD for themselves. The maximum amount that can be transferred from a traditional IRA to charity each year as a QCD is $100,000. An individual who transfers the full $100,000 to charity and is in the 22% tax bracket, for instance, would save $22,000 in taxes.

Even for clients who itemize deductions, an IRA charitable rollover is an appealing option and can make sense when:

- A client's charitable gifts exceed the maximum amount that the client can deduct this calendar year.
- Removing an RMD from a client's taxable income would reduce the client's tax bracket or keep the client's income below the threshold for the Medicare high-income surcharge.

While federal tax law does not permit QCDs to donor-advised funds, it does allow such gifts to designated funds, administered by a charitable sponsor. Designated funds are funds established to support a single, specified charitable organization.

National Philanthropic Trust, for instance, offers designated funds for individuals and groups who wish to make a single charitable gift or recurring gifts to one specific charity. One advantage of using an NPT designated fund over rolling a QCD directly to a charity is the ability to pre-fund one's giving. For instance, a client could make a $100,000 charitable IRA rollover to an NPT designated fund and then recommend annual $5,000 grants to a place of worship, alma mater or other charity. The client can retain the right to recommend investments within the fund as well as the timing and purpose of grants to the designated charity.

For more information on designated funds and other tax-smart ways to help your clients support their favorite causes, please call NPT at (888) 878-7900 or email us at npt@nptrust.org.

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