

[Bill Laskin](#) - Tue, 1/8/2019 - 16:22

The charitable IRA rollover is one of the great innovations in charitable giving of the last few years. Referred to by many as a qualified charitable distribution, or QCD, the charitable IRA rollover first came into being as part of the Pension Protection Act of 2006, but only through 2007. After a series of extensions, the charitable IRA rollover was made permanent in 2015 with the signing of the Protecting Americans from Tax Hikes Act (Path Act).

An Increasingly Popular Way to Make a Gift

With each passing year, the charitable IRA rollover has become an increasingly important source of charitable gifts. Its now permanent status has certainly helped. Fundraisers expect another significant boost to this type of gift this year in response to changes wrought by the Tax Cuts and Jobs Act of 2017.

The new tax law nearly doubled the standard deduction while eliminating or reducing many itemized deductions. The Joint Committee on Taxation estimates the number of itemizers will decline from 30% in 2017 to just 12% in 2018. Charitable IRA rollover gifts have always been especially attractive to non-itemizers and now there will be many more of them.

Unlike most charitable gifts, where the tax benefit depends on the donor itemizing deductions, a charitable IRA rollover offers a donor the same tax benefits whether or not the donor itemizes. Donors can also fulfill their required minimum distributions by making charitable IRA rollover gifts. Charities are well aware of these attractive features and have been working hard to make their supporters who are over 70 1/2 years old aware of them. This is all good, but there is a trap awaiting the unwary as we near the end of the year.

A Trap for the Unwary at Year-End

Many large IRA administrators now offer IRA owners the option to write checks off their IRA account. This means that when an IRA owner wants to make a charitable IRA rollover gift to your charity, she can just write a check off her IRA herself and mail it to you. Couldn't be simpler, except that Professor Russell James of Texas Tech University has pointed out to us that in this case, two traps lurk for donors who make their QCD gifts this way near the end of the year.

Unlike what your donors are used to, when they make a charitable IRA rollover gift by writing a check, the date of gift is not established when they put their check in the mail. Rather, the QCD rules require action by the IRA administrator, which means the date of gift is established when the IRA administrator transfers funds after the charity deposits the check. If a donor mails an IRA check to your charity in late December and your charity doesn't cash it until early January, two problems occur:

1. The donor will have to declare her QCD on the following year's tax return.

2. If the donor misses fulfilling all of her required minimum distribution for the year because of the delay, she will have to pay a **50%** penalty tax on the amount of underdistribution. That will be one unhappy donor!

What To Do?

Make sure you encourage your donors to make their charitable IRA rollover gifts at least several weeks before the end of the year if writing their own checks, especially if they will be relying on them to fulfill their required minimum distributions.

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