Doing Well by Doing Good - Expanded by SECURE ACT 2.0

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As a result of the SECURE 2.0 Act, retirees who want to benefit charity now have expanded options. Individuals who have reached age 70½ can now reduce their tax bills by making a once-in-a-lifetime gift to charity from their retirement account (a Qualified Charitable Distribution, or QCD) of up to $50,000, and the inclusion of charitable trusts or Charitable Gift Annuities (CGAs) as eligible charities provides a way to receive income while making the $50,000 QCD.

The Act introduces a new provision starting this year (2023), allowing a ***one-time*** QCD from a retirement account of up to $50,000 to charities through specific charitable trusts, such as charitable remainder annuity trusts (CRATs) and charitable remainder unitrusts (CRUTs), or charitable gift annuities (CGAs).

CRUTs and CRATs are split-interest trusts that make payments to the donor for a term of years (or lifetime), and the remaining balance left after the payments are completed goes to charity. Among the mentioned trust options, CRUTs are preferable when trust investments appreciate, while CRATs are more suitable if trust values decline. However, these trusts can be costly to administer and are typically used for larger amounts.

There are some disadvantages when compared to CRUTS and CRATs that are not funded with retirement account distributions. Normally, payments received from a charitable remainder annuity trust are partly taxable and partly tax-free. If the CRAT/CRUT had a capital gain from the sale of an appreciated asset, then the income comes out as capital gain income. The income comes out "worst first." Under the SECURE 2.0 rules, *100% of all payments* received by the IRA owner or owner's spouse must be considered ordinary taxable income.

However, the Charitable Gift Annuity option presents an exciting opportunity. With CGAs, the donation is made directly to the institution setting up the CGA, such as a university endowment. This can potentially save administrative costs and tax-filing fees.

As with all QCDs, the withdrawal from the IRA does not count as income and can count toward the required minimum distribution (RMD) amount for the year. The giver receives a minimum payout of 5% annually, taxed as ordinary income. As with all annuities, the payout amount is age-based, and most charities use the American Council on Gift Annuities suggested payout rates, with a significant portion going to charity upon the donor's death.

IRA-funded gift annuities have certain restrictions, such as being limited to one tax year, starting payments within a year of funding, and the ability to make payments to the donor or the donor and spouse only.

Charitable Gift Annuities are as safe as the soundness of the charity issuing them, as the charity pledges its assets to back the annuity payments.

Separately, but related, it is worth noting that currently, the QCD to charities (not trusts or gift annuities) limit is set at $100,000 ***per year***, without annual adjustments for inflation. However, the SECURE 2.0 Act allows for the $100,000 limit to be adjusted annually based on inflation, starting in 2024.

Five Important takeaways:

1. The SECURE 2.0 Act allows for annual adjustments of the $100,000 limit for Qualified Charitable Distributions (QCDs) from IRAs to charity based on inflation, starting in 2024.
2. A one-time QCD of up to $50,000 to charities is allowed through specific charitable trusts (CRATs, CRUTs, or CGAs) starting in 2023, expanding options for individuals aged 70½ and older to lower their federal tax bills.
3. A one-time QCD of $50,000 to a CRUT/CRAT or CGA counts towards that year's $100,000 QCD limit.
4. Payments received from charitable trusts are affected by the new SECURE 2.0 rules, with 100% of all payments considered ordinary income, which may discourage the use of existing charitable remainder trusts for IRA payments.
5. Charitable gift annuities (CGAs) provide an exciting opportunity, allowing donations to be made directly to an institution (e.g., university endowment), potentially saving administrative costs and tax-filing fees