



## Now is the Time! Year-End Messaging to Close More Gifts

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Many charities have already sent their year-end appeals. Others are making final adjustments to these important annual communications. Regardless of the timing, there are messages that can increase the size of gifts during the giving season. Be sure donors are aware of these three essential giving opportunities at the end of 2021.

### 1. Gifts of Appreciated Securities

**Quick Take:** For donors who itemize, a gift of appreciated securities provides the double benefit of an income tax charitable deduction for the fair market value of the securities as well as avoidance of 100% of the long-term capital gains tax. Even donors who do not itemize their deductions can still avoid the long-term capital gains tax with a charitable contribution of appreciated assets.

**The Mechanics:** 2021 has been an extraordinary year for investment markets. On Friday, November 5, the Dow closed more than 14% up for the year and 28% from a year ago. The S&P has performed even better, up 19% for the year and a remarkable 34% over a year ago. What a wonderful time to suggest a contribution of appreciated securities.

A gift of appreciated securities immediately avoids capital gains tax that would otherwise be due upon sale. The donor may also take an income tax charitable deduction for the fair market value of the donated securities.

Reach out to donors who have made gifts of securities in the past or donors that may consider such a gift this year. Remind them time is of the essence when making a year-end gift of securities. A last-minute gift may not qualify for a 2021 income tax charitable deduction if not made in time.

A gift of securities is subject to the same basic rules as any other contribution: the gift is complete only after the donor has unconditionally relinquished all dominion and control over the transferred property. For example, if a donor gives written instructions to a stockbroker on December 31, 2021 to transfer securities to a charity's account, but the broker does not record transfer of the securities until January 1, 2022, the IRS could challenge the income tax charitable deduction for a 2021 gift on the grounds that the transfer wasn't completed in that year. A gift of physical stock certificates is a completed gift on the date when the donor endorses the stock certificate or stock power and delivers the endorsed certificate or the certificate and stock power to the charity.

## 2. Qualified Charitable Distributions

**Quick Take:** For donors over age 70½, a Qualified Charitable Distribution (QCD) from an IRA remains a simple and highly tax-efficient way to support your mission. These tax savings are available to donors regardless of whether they itemize their deductions. As a bonus, if your donor is 72 or older and therefore subject to Required Minimum Distributions (RMDs), QCD gifts reduce the required taxable withdrawal.

**The Mechanics:** The IRA account owner must be 70½ or older at the time of the QCD transfer. It is not enough for the IRA account owner to turn 70½ in the year of the gift. The donor must have been 70½ or older on the date of gift.

For donors who must take an RMD each year, one of the prime tax benefits of a QCD is that it counts toward the donor's RMD. Some individuals may not need the income from the RMD, but failure to withdraw their RMD subjects them to a 50% penalty tax on the amount of the RMD not withdrawn. Using a QCD allows a person to meet their RMD requirement while reducing the amount included in their gross income.

The QCD must be paid by the IRA administrator directly to the charity. However, it is permissible for the IRA administrator to issue a check payable to the charity and mail the check to the IRA account owner for transmittal to the charity.

The donor cannot take an income tax charitable deduction for a QCD gift. Instead, the amount of the QCD is excluded from the donor's taxable income – a much better result, particularly for donors who take the standard deduction rather than itemize.

The major IRA administrators have forms and procedures to request a QCD. These forms have various titles, "Qualified Charitable Distribution (QCD)," "Qualified Charitable Distribution—IRA One-Time Withdrawal," and "Qualified Charitable Distribution Request Form." A search of the forms section of the plan administrator's website or a call to the customer service department will locate the appropriate paperwork to begin a QCD transfer.

While the forms in this category are easy to find, they differ in their procedural requirements. Since a QCD is not subject to tax withholding, there should be no standby withholding for a QCD request. Fidelity Investments requires a Medallion Signature Guarantee if the client asks to send the QCD to an alternate address (such as your

charity) and the total distribution amount is greater than \$10,000. Virtus Mutual Funds requires a Medallion Signature Guarantee for all QCD requests. Requesting that the administrator send a check to an address other than the account owner's address on file can trigger the signature guarantee requirement. To avoid the need for the signature guarantee, have the administrator send the check made out to your charity to the donor. The donor can then send the check to your charity. This still fulfills the requirement that a QCD be paid "directly" to the charity from the IRA.

If a donor wants a QCD to count this year, they should begin the process well before December 31. The gift date is the date the administrator removes the funds from the IRA. If the donor sends the check to the charity, that won't happen until after the charity deposits the check and the administrator then moves the funds. The whole process can take a couple weeks.

### **3. 2021 Incentive for Cash Gifts**

**Quick Take:** The maximum allowable income tax deduction for cash contributions to public charities in 2021 is 100% of Adjusted Gross Income (AGI). This incentive expires on December 31, 2021. After that, this deduction limitation will return to 60% of AGI.

**The Mechanics:** Individuals in 2021 may take an income tax charitable deduction for gifts of cash to public charities up to 100% of their adjusted gross income. The 100% of AGI deduction limit permits generous donors to completely offset their income tax liability for 2021 if they make cash gifts equal to their adjusted gross income. Donors with significant campaign pledges could accelerate future pledge payments into 2021 with cash gifts and enjoy a substantial tax break.

The 100% of AGI limit creates an alternative way for donors to make gifts from their retirement accounts. Although gifts made via qualified charitable distribution (QCD) produce a tax-neutral outcome for the donor, QCD withdrawals are limited to \$100,000, the donor must be at least 70½ at the time of the gift, and the account must be an IRA. Since cash gifts in 2021 are deductible up to 100% of adjusted gross income, a donor could make a gift from an IRA, 401(k), or other retirement plan by withdrawing an amount equal to their AGI followed by a contribution of the cash proceeds to charity. In such a case, the temporary 100% of AGI limit can make it possible for the donor's charitable deduction to completely offset the taxable income from the withdrawal, enabling a donor as young as 59½ to make a tax-neutral gift of more than \$100,000 from a qualified retirement plan.

### **Conclusion**

Even if your year-end messaging missed mentioning these important tax-incentives for giving, there are still ways to reach your donors before the end of December. A follow-up email or mailing as a reminder to make year-end gifts can showcase these giving options. Use opportunities such as visits, phone calls, and videoconferencing as an opportunity to talk to your donors about these giving options, especially to remind them that the 100% of AGI limit on cash gifts will expire at the end of 2021.