



What You Need to Know About the Legacy IRA Act

Date: January 12, 2023
Time: 2:00 – 3:00 Eastern
Presenter: Kara Morin
Director of Client Services
PG Calc

- Overview of the legislation
- Limitations and Benefits
- QCD CGAs
- QCD CRTs
- Who is Your Donor
- Comparison of Benefits
- How Donors Make the Gift
- Next Steps for Charities
- How to Run the Calculation in PGM Anywhere
- Additional Training Opportunities

The Legislation - The SECURE 2.0 Act of 2022

6 **SEC. 307. ONE-TIME ELECTION FOR QUALIFIED CHARI-**
7 **TABLE DISTRIBUTION TO SPLIT-INTEREST**
8 **ENTITY; INCREASE IN QUALIFIED CHARI-**
9 **TABLE DISTRIBUTION LIMITATION.**

Expands the definition of Qualified Charitable Distributions in IRC Sec. 408(d)(8) to include life income gifts

Who Can Do This?

Individuals aged 70 ½ or older who have a traditional IRA

Note: This is younger than the age for a required minimum distribution (RMD) which was raised to age 73 in 2023

When Can Donors Use This?

- “One-time election”
 - To be used in a single calendar year
 - Your donor can choose the best year for them, but if they don’t use the full \$50k, the unused portion does **not** carry forward

What Can Your Donors Do?

- Establish one or more of the following split-interest agreements:
 - CGAs (immediate payment only)
 - CRUTs
 - CRATs

All Three Have The Same Limitations

- Maximum aggregate gift amount of \$50,000 in one calendar year
- Life income beneficiary must be donor and/or donor's spouse
- Payments are non-assignable (including to charity)
- Payout rate must be at least 5%
- The QCD must be the only asset given, no combination of funding assets, or trust additions, allowed
- Like the outright QCD, this cannot be used to make a gift to a supporting organization or a donor advised fund
- Payments to annuitants or trust beneficiaries are all ordinary income
- There is no income tax charitable deduction

All Three Have the Same Benefits

- Tax-free withdrawal that counts towards required minimum distribution (RMD)
- A QCD withdrawal for non-itemizers offers a comparable financial benefit to a charitable deduction
- Takes a lump sum taxed as ordinary income in one year and turns it into a stream of smaller sums taxed as ordinary income over (hopefully) many years
- A CGA turns variable income from the IRA into fixed income
- Spouses can combine their personal \$50,000 distribution to create one CRT or CGA funded with \$100,000 (Both spouses must have their own IRAs)
- Can be combined with an outright \$50,000 QCD for greater charitable impact



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CGAs – Some Good News

- Can be used to establish one or more CGAs in one year
- CGAs can be established at one or more 501(c)3s
- As long as the total across all organizations and annuities does not exceed \$50,000 in a calendar year

“(II) the aggregate amount of distributions of the taxpayer with respect to which an election under this subparagraph is made does not exceed \$50,000, and



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Wait, What About One Year DGAs?

only if such annuity is funded exclusively by qualified charitable distributions and commences fixed payments of 5 percent or greater not later than 1 year from the date of funding.

- Immediate payment CGAs only
- The language of the bill is designed to allow for an annuity with an annual payment, not a one-year DGA

Potential Challenges for CGAs

- Even though there's no deduction, the CGA must still pass the 10% test
- Required minimum payout of 5% could be challenging for spouses with a significant age difference
 - ACGA rate for beneficiaries age 73 and 63 = 4.9%
 - In such cases, make sure your state registration allows you to offer a rate higher than ACGA
- Non-assignability clause may require submission of additional CGA sample contracts to states where your charity is registered

Potential Challenges for Charitable Remainder Trusts

- Spouses can combine their \$50,000 QCD distributions to establish a single trust, but a trust at \$100,000 is still below the gift minimum for many charities
- Trusts must run for life, which makes CRTs for a term of years unavailable
- No additional assets can be contributed, limiting the utility of a CRUT

Who is Your Donor?

- Someone who wants to make a gift to your charity
- Someone with a well-funded IRA and a substantial RMD
- Who finds their IRA income “nice but not necessary”
- Who can’t use a charitable deduction because they don’t itemize or because they’ve reached their AGI limit
- Who is interested in minimizing taxation
- Who is interested in generating a fixed stream of income (CGA)



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QCD CGA vs. RMD After-tax CGA

Criteria: Donor/Annuitant age 73 is in 24% tax bracket, IRS Discount Rate 5.2%, 2000CM Mortality Table, ACGA annuity rate of 6.3%

Principal Donated	\$ 50,000 (IRA QCD)	\$ 38,000 (after-tax cash)
BENEFITS:		
Value of not paying tax on RMD	\$ 12,000	N/A
Charitable Deduction	\$ 0	\$ 17,794
Est. Value of Deduction	N/A	\$ 4,270
Annual Payout	\$ 3,150	\$ 2,394
Tax-free Portion	\$ 0	\$ 1,465 (for 13.8 years)
Ordinary Income	\$ 3,150	\$ 929
After tax income	\$ 2,274	\$2,136

Is This Really a Big Deal?

- A new gift type is a new reason to connect with donors, which is always good for fundraisers
- Once a donor is comfortable making a QCD, they're often more comfortable discussing a bequest from their IRA, and that can be a significant gift.
- Questions about a life income gift from a QCD could lead to constructive discussions of other life income gifts


How Do Donors Do This?

- Like the outright QCD, this has to go directly from the custodian to the charity
- Date of gift is when the asset is transferred out of the donor's account, the post box rule is not used
- Donors need the following information:
 - Your organization's legal name
 - Your Federal Tax ID Number
 - Your legal mailing address

Next Steps for Charities

- Have a QCD CGA contract on-hand with a non-assignability clause
- Review your state registration, do you need to submit this QCD CGA contract to any of the states?
- Create a standard acknowledgement that has no deduction but still contains the “no goods or services were provided” language
- Make sure you’re including this as an option in your marketing materials
- Make sure your legal name, legal address and tax ID (EID) are easy to find on your website to make it easy for donors to complete IRA custodian forms
- Make sure you understand how to use our software to model a CGA with a zero deduction and all ordinary income

How to run in *PGM Anywhere*

Gift Annuity 

Property type:

Value of property transferred:

Cost basis (enter % sign for percentage):

How to run in *PGM Anywhere*

CALCULATIONS:

Charitable Deduction	\$0.00
Number of Payments in First Year	4
Days in First Quarterly Period (1/1/2023 to 3/31/2023)	90
Days of Payment Credit in First Quarterly Period (1/11/2023 to 3/31/2023)	80
Annuity	\$3,100.00
Quarterly Payment	\$775.00
First Partial Payment on 3/31/2023 (80/90 x \$775.00)	\$688.89

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2023 to 2023	0.00	3,013.89	3,013.89
2024 to 2036	0.00	3,100.00	3,100.00
2037 to 2037	0.00	3,100.00	3,100.00
2038 onward	0.00	3,100.00	3,100.00

Additional Training Opportunities

PGM Anywhere and Gift Annuities (ONLINE)

January 17th and 18th

<https://www.pgcalc.com/education/pgm-anywhere-and-gift-annuities-online-4-hours-over-2-days-14>

PGM Anywhere - Introductory Session (IN PERSON - New York City)

February 14th

<https://www.pgcalc.com/education/pgm-anywhere-introductory-person-new-york-ny>

Poll Question Responses

Has your organization ever accepted a QCD gift?

- Yes: 93%
- No: 7%

Have you been contacted by a donor interested in using a QCD to establish a life income gift?

- Yes: 55%
- No: 45%



To ask a question click the
Q&A button at the bottom



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Still Have a Question?

Contact: Kara Morin
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