THE SAVVY DONOR

Office of **PLANNED GIVING**

"Just so you know, I'm taking all this with me into the afterlife."

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THE SECURE ACT UPENDS ESTATE PLANNING. HOW DOES IT IMPACT GIVING?

The December 2019 SECURE ACT[1] eliminates the lifetime stretch option for many inherited IRAs and other retirement plans[2]. Prior to the SECURE Act, the beneficiary of retirement funds could withdraw the funds over a lifetime. Eliminating this option creates two potential problems, but retirement plan owners who are charitable have four possible solutions:

Problem || Most non-spousal inheritors of retirement funds must completely empty and pay tax on the account within 10 years, regardless of whether the funds are needed. Income tax on withdrawals likely will consume 25 percent to 45 percent of the account value.

ONE SOLUTION: Use traditional IRAs for giving after age 70.5, to put funds to work at 100 percent invested value and preserve appreciated assets and cash. The IRS allows up to $100,000 annually of tax-free distributions if donated directly to charity. This strategy works best for those who have completely finished contributing to their IRAs[3] and who do not need the income. To make a qualified charitable distribution to the University of Maryland, Baltimore or any of its seven schools, please provide your IRA administrator the organization information located at the bottom of the reverse side.

ANOTHER SOLUTION: Use retirement accounts to fulfill charitable bequests, leaving other assets to family and heirs. 501(c)(3) organizations like the University of Maryland Baltimore Foundation (UMBF) pay no tax on the withdrawal, putting 100 percent of the invested value to charitable use. Donors using this strategy should be certain to use the correct name and tax ID number of the organization; ours is located at the bottom of the reverse side. Donors also should consider informing the organization to designate how the future gift will be used.

Problem || The 10-year withdrawal window might force funds onto young heirs before they can handle it responsibly.

ONE SOLUTION: Include in your will or living trust a testamentary charitable remainder unitrust (CRUT) to pay heirs income for life or 20 years.[4] CRUTs produce similar benefits to those of stretch IRAs, like tax-free sale assets, tax-free investment growth, tax deferral on income, and income later in life when it is most needed.[5] After all income is paid, the CRUT remainder goes to one or more charitable organizations named by the donor. To pursue this strategy, donors should consult an attorney to create the provision and should subsequently change the retirement plan beneficiary form to name the future CRUT.

ANOTHER SOLUTION: Designate the retirement plan to a charitable organization that agrees to issue an immediate or deferred charitable gift annuity (CGA) paying lifetime income to the heir. Like a CRUT, the benefactor is giving the heir a stream of income instead of the assets, but in return the heir gains secure payments they can't outlive. Donors should coordinate this plan with the issuing charity in advance to learn at what minimum age the income can begin, confirm that it can issue a CGA as planned, and get that commitment in writing.[6]

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[1] Setting Every Community Up for Retirement Act of 2019

[2] Exceptions are individuals with less than 10 years age difference from the decedent, disabled or chronically ill heirs, and minor children (not grandchildren) of the account owner. Minors must withdraw all inherited IRA funds before their 28th birthday.

[3] SECURE removes the age limit for tax-deductible contributions to IRAs, but any IRA contributions made after age 70.5 reduce the amount that can be distributed tax-free to charity. Although all or part of a qualified charitable distribution (QCD) might be taxable, unlike a normal QCD gift the donor receives a tax deduction for any part of the gift transfer deemed taxable.

[4] The income structure depends on the payout rate and age(s) of the beneficiaries, with 10 percent being the minimum remainder value to qualify as a charitable remainder trust under Section 664.

[5] Unlike an inherited IRA, a CRUT represents a stream of income, not an asset.

[6] CGAs are regulated by state insurance laws, and charities set their own minimum payout age. For example, UMBF can issue CGAs to residents of all 50 states except Washington and Hawaii, and the minimum age to receive payments is 60. Deferral of payments increases the rate of income starting at age 60.

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EVERYONE ASKS:
Can I give from my Roth?

Even though Roth IRAs are eligible to make qualified charitable distributions, the donor receives more tax benefit by first withdrawing the funds tax-free and making a tax-deductible gift with the cash. In addition, Roths do not subject the owner to required minimum distribution, so if the funds are not needed, leaving them invested would probably be smarter. Because of these two reasons, only traditional IRAs are useful for gifting purposes.

Can I give tax-free from another qualified retirement plan like a 401(k)?

No. One must first roll the funds into a traditional IRA and make donations from that. Step 1 would be opening a new IRA with the same account administrator as the retirement plan, if possible. Step 2 would be rolling the funds tax-free into the new account, followed by Step 3 of directing a gift out of the new IRA. The extra steps might be worth it for donors claiming the standard deduction or subject to deduction limitations and who are subject to required minimum distributions.[7]

[7] For account owners born on or after July 1, 1949, the SECURE Act increases the age for required minimum distributions from 70.5 to 72.

WENDY M. BERLINROOD, PHD ’86, ON WHY IRA GIFTS WORK FOR HER

“On a trip several years ago, I heard others talking about letters they had received from universities and alumni associations on the subject of donating IRA funds. Since I hadn’t yet received any information directly myself, I decided to investigate.

“What I found was a way I could put my money to good use that would both benefit myself and the charitable organization. When the individual contributes money from their IRA, the withdrawals are not taxable on income, which is a major plus.

“There are some minimal conditions to the distribution of IRA money for charitable contributions depending upon the financial institution in which the money is held. For me, the process was very easy and everyone involved benefited.”

When making an IRA gift, please contact the Office of Planned Giving to notify us of how you wish your gift to be used or designated.

THE UMB OFFICE OF PLANNED GIVING HELPS DONORS MAXIMIZE GIVING TO THE UNIVERSITY OF MARYLAND SCHOOLS OF MEDICINE, LAW, DENTISTRY, PHARMACY, NURSING, GRADUATE SCHOOL, AND SOCIAL WORK THROUGH TAX-EFFICIENT STRATEGIES AND OTHER OPTIONS BENEFICIAL TO THE DONOR. PLEASE VISIT *www.umaryland.edu/plannedgiving* OR CONTACT THE OFFICE OF PLANNED GIVING AT 877-706-4406 OR *plannedgiving@umaryland.edu*.

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