THE SAVVY DONOR

Office of **PLANNED GIVING**

"Good news, honey—seventy is the new fifty."

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FOUR REASONS TO DONATE FROM YOUR IRA (AND TWO REASONS NOT TO)

Owners of individual retirement accounts (IRAs) can now donate to charitable organizations directly from their accounts and not pay tax on those distributions. The rules are that the account holder must be age 70.5 or older, have the payment go directly to the organization from the IRA administrator, and not receive anything of value (like an event ticket) in return. The charitable gifts count toward the annual required minimum distribution (RMD) that the account holder has to take every year past age 70.

Why would an IRA owner choose to make gifts via qualified charitable distributions?

1 || to restore the tax benefits of donations if claiming the standard deduction. In 2019 the standard deduction is $12,200 for individuals and $24,400 for married filing jointly. Unless the taxpayer has a greater amount in itemized deductions, which include charitable gifts, they will lose all the tax benefit of those donations that year. Because the IRS does not tax charitable distributions, giving via IRA funds restores the income tax benefit of those gifts regardless of whether the taxpayer itemizes.

2 || to reduce investment income taxes. If the taxpayer's adjusted gross income (AGI) exceeds a certain income threshold, they must pay a 3.8 percent Medicare surtax on investment income (the lesser of net investment income or modified AGI (MAGI) above the threshold). Taxpayers just above the surtax threshold – $200,000 for individuals, $250,000 for married filing jointly – might be able to bring their AGI below the threshold by donating all or part of the IRA distribution.

3 || to reduce state income taxes in 38 states — all but Alaska, Florida, Illinois, Mississippi, Nevada, New Hampshire, Pennsylvania, South Dakota, Tennessee, Texas, Washington, or Wyoming. Distributions from traditional IRAs are subject to state income tax in 38 states, so using IRA income for charitable gifts saves the taxpayer up to 13.3 percent of the distribution amounts.

4 || normally it is quick and easy. An IRA account holder who is age 70.5 or older must request an annual distribution anyway, and often a qualified charitable distribution is made on the same or similar form. Distribution always happens through a written request/form to the IRA administrator, often completed online. Those wishing to make IRA gifts to the University of Maryland, Baltimore or any of its seven schools should write the **University of Maryland Baltimore Foundation** *(220 N. Arch St., 13th Floor, Baltimore, MD 21201; id# 31-1678679)* and please contact the Office of Planned Giving to tell us how you wish your gift to be used, or school or fund to be designated.

In two specific circumstances making gifts directly from an IRA is probably NOT as desirable as other giving options: 1) if the donor owns only a Roth IRA, which is not subject to RMDs and whose distributions are not taxed, unless they do not need the tax benefit and do it for the convenience factor, and 2) if the donor has highly appreciated stock owned for more than one year, who can achieve higher tax benefits by donating those assets instead.

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EVERYONE ASKS:

How are IRA gifts reported at tax time?

Taxpayers/donors who make qualified charitable distributions should understand that the IRA administrator plays a negligible role in reporting the donation(s) to the IRS. Even though the IRA administrator must transfer the funds directly to the charitable organization, it is the taxpayer who must track and report on their tax forms what amount of an otherwise-taxable transfer is actually a tax-free charitable distribution. If the taxpayer forgets or neglects to inform their tax preparer, they might pay income tax they don't owe.

For any year in which a distribution is made, the IRA administrator will send the taxpayer a 1099-R that reports all distributions for the year. Line 4a of the taxpayer's 1040 includes this amount, but line 4b reports the amount in 4a that is taxable. For example, someone who directed that charitable organizations receive 100 percent of a $15,000 distribution would write $15,000 on line 4a and $0 on line 4b; if they instead directed the entire distribution to themselves, they would report $15,000 on line 4a and $15,000 on line 4b, communicating that the entire amount is taxable as ordinary income.

Donors should contact the charitable organization when giving IRA funds, to communicate how the funds are to be used or designated (because forms do not leave space for designating a gift beyond the name of the organization), and so the acknowledgment reaches the donor in a timely manner. As with any donation, it is important that the taxpayer receive and keep written acknowledgment from the charitable organization receiving the funds, stating the value, date received, and that no goods or services were provided.

DONNA BLAUSTEIN, JD '71, ON WHY IRA GIFTS WORK FOR HER

Donna Blaustein and her husband, Arnold, MD '66, each give annually from their IRAs. At the time she became eligible, Donna was already aware of the IRA giving option through her professional work.

"In my legal practice, charitable giving was an important topic," says Donna, "I discussed this option with those charitably minded and who could afford to live without their minimum distribution."

Because she gives to multiple charities, giving from her IRA provides Donna convenience in addition to tax savings. "In general it is a very simple process, just giving directions on how you want the funds distributed and not writing the checks yourself."

Donna mentions the importance of leaving enough time for the request to be processed, and gifts received and deposited by the charities before Dec. 31. "On one occasion we waited until the end of the year and that made it a little more difficult."

"For my situation it's a great option," says Donna. "Now we pretty much do the same every year."

This publication is not intended to provide legal, tax, investment, or other professional advice, and should not be relied upon for such advice. We encourage you to seek the advice of legal, tax, and investment professionals in advance of any charitable gift plan.

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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