

2019 Report on Qualified Charitable Distributions from IRAs

What the fastest growing area of philanthropy means for your organization

Thank you for your interest in Qualified Charitable Distributions – we’re looking forward to sharing our insights with you. In the last two years, FreeWill has worked with more than 130 nonprofit partners to transform the estate planning process. Our free, warm, and intuitive online tools have helped tens of thousands of people commit more than \$400 million to great causes. Along the way, we have learned a lot about what helps people give, and what straightforward, intuitive tools can do to transform the impact nonprofits have.

So when the organizations we work with started talking to us about Qualified Charitable Distributions (QCDs) from IRA accounts, we saw an opportunity to make a difference there too. As we spoke to nonprofits, through surveys and supplementary interviews, it became clear that tax changes and an aging demographic has created an important moment for development professionals. But, they also told us how frustratingly hard it was to make the most of this opportunity. The current process puts unnecessary barriers in their way.

We want to share what we have learned with you, as well as the recommendations we make as a consequence – all as part of the first report considering QCDs in the broader philanthropic landscape. The feedback triggered Freewill to use our skills to find a way to eradicate both the unnecessary barriers donors find in making a QCD and the barriers nonprofits encounter in building a relationship with them. I am delighted to launch our new QCD tool alongside this report.

We’d love to know if you agree with our findings, and thank you for reading.



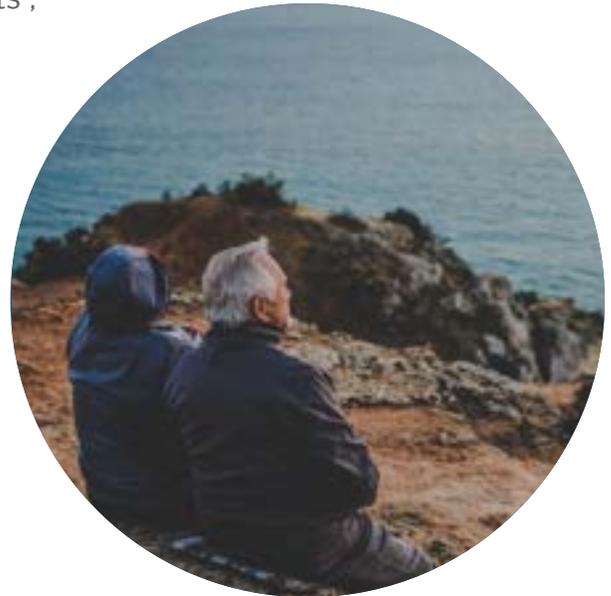
Patrick Schmitt
Co-CEO, FreeWill

April 2019

What exactly is a *Qualified Charitable Distribution*?

Commonly known as “IRA Charitable Rollover Gifts”, Qualified Charitable Distributions (QCDs) have become the most tax efficient way for many to make charitable gifts.

QCDs are open to anyone 70.5 and older with a traditional IRA. The 70.5 year-old threshold is due to the IRS requirement that IRA owners must start withdrawing money from their accounts in the year in which they turn 70.5. These withdrawals are known as Required Minimum Distributions (RMDs). There is a large fine, equivalent to half the RMD, for failing to withdraw enough, which creates a strong sense of urgency for donors.



The most common way to make a QCD is for donors to submit requests to their IRA custodian, such as Fidelity, Vanguard, or Charles Schwab. The custodian then sends money directly to the appropriate nonprofit. A second, less common, method is to use an IRA checkbook. Neither option provides the foundation for an intuitive donor journey or the basis to build a relationship.

Qualified charitable distributions have no minimum, but the most that can be given annually is \$100,000. These gifts can be made year after year.

It is worth noting that 401(k)s are not eligible for QCDs. Roth IRAs are eligible, but are already tax-free, so there is not the same tax advantage. That means there is a clearly defined and very large group of people – those over 70 with traditional IRAs – who will benefit from making QCDs.

QCD gifts are growing rapidly

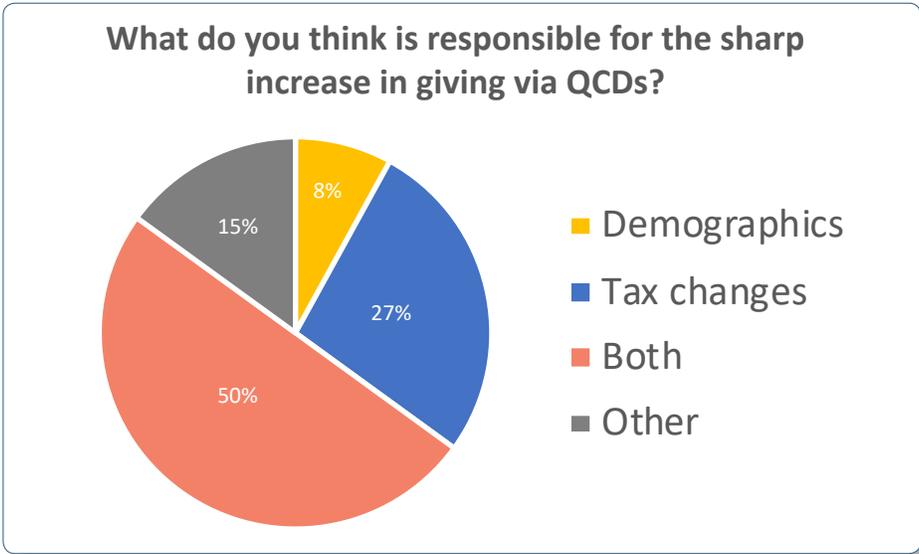
“Our QCD gifts doubled in 2018. Now we’re figuring out what to do next.” — Planned giving officer, top 25 college

Across all nonprofits surveyed, the average growth in QCDs from 2017 to 2018 was a whopping 73.8%. Of all nonprofits surveyed, 92% saw an increase in QCD giving from 2017 to 2018. Just 7% saw a decrease. Those who saw a decrease were primarily very small nonprofits who had very few in both years.

73.8%
Average QCD growth
from 2017 to 2018

The largest increase in our sample set was 400%.

What’s driving growth?



The Protecting Americans From Tax Hikes Act (2015) made QCDs permanent. As the example on the following page (4) shows, it built in a process for people to give money to donate to 501(c)(3)s and save on their tax bill by reducing their taxable income.

Factor 1: Tax changes

Recent tax changes mean that for many donors over 70 years of age, QCDs are now the only way to receive a meaningful income tax benefit from charitable contributions.

The *Journal of Accountancy* explains the role of tax changes on the rise of QCDs:

Since the passage of P.L. 115-97, known as the Tax Cuts and Jobs Act of 2017 (TCJA), QCDs can offer an additional benefit. For tax years 2018 through 2025, the TCJA nearly doubles the standard deduction (for 2018, to \$24,000 for married couples filing jointly, \$18,000 for heads of household, and \$12,000 for all other individuals, indexed for inflation in subsequent years) and caps the itemized deduction for state and local taxes (SALT) at \$10,000 annually. Thus, many taxpayers who previously itemized deductions will now find it advantageous to take the standard deduction instead. These taxpayers will no longer deduct their charitable contributions, but via a QCD, some of them can still make those contributions with pretax dollars, resulting in significant tax savings.

Mollberg, Kim T. (2018, October 1). [New Life for IRA qualified charitable distributions.](#)

The journal goes on to highlight how a QCD can save money for eligible taxpayers and get money that otherwise may not have been donated to nonprofits.

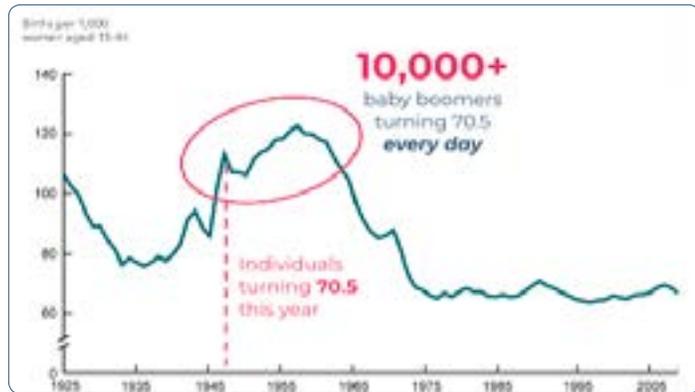
Example: For the 2018 tax year, a couple both aged 75 plan to file jointly. They anticipate adjusted gross income (AGI) of \$125,000, including \$60,000 in RMDs. Although they will not itemize deductions, they still plan to make charitable contributions totaling \$5,000. They will report federal taxable income of \$98,400 (\$125,000 AGI, less a standard deduction of \$26,600 (\$24,000 plus an additional standard deduction of \$1,300 each for being over 65)), resulting in federal tax of \$13,527.

If the couple instead make the charitable contributions using QCDs, they will include the \$5,000 in their RMDs but exclude it from gross income, resulting in taxable income of \$93,400 and federal tax of \$12,427, a tax savings of \$1,100.

Factor 2: Demographics

But the explosive growth in QCDs is driven by more than just tax incentives. Demographic shifts are fundamentally altering the giving landscape in the US. There are currently 10,000 Baby Boomers turning 70 every day, making 70- to 80-year-olds the fastest growing age bracket in the US – the same age bracket who become eligible for QCDs.

We are now in the fourth year of Boomers turning 70 (the eldest hit 70 in 2016), and this age group will continue to grow dramatically over the next 10 years.



QCDs are large, and getting larger

\$9,200

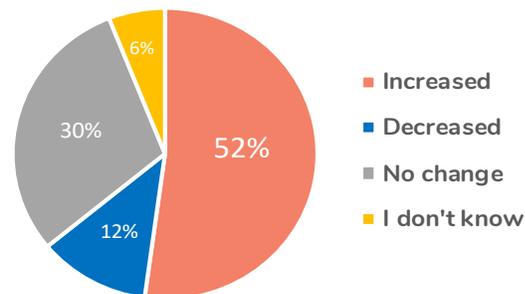
Average QCD gift among respondents

Across all nonprofits surveyed, the average QCD gift is \$9,200. The smallest average gift size was \$150. The largest was \$50,000.

More than half of all organizations reported that the average size of gifts has increased over the past year. Just

11.9% said the average decreased, while 30% reported no change. With the number and size of QCDs growing, there is the opportunity for nonprofits to dramatically broaden and deepen their donor engagement.

Has average gift size increased or decreased since 2017?



The obstacles to success

Many organizations have told us that making the most of this opportunity has been frustratingly difficult.

77.2% of organizations say the top challenge when processing these gifts is the lack of information shared by IRA custodians.

Organizations routinely receive a check from an IRA custodian (e.g. Vanguard) with no notation that it is a QCD gift, and without any information on the donor. In some cases, gift officers are able to follow up with custodians to get this vital information. But this is a time-consuming, inefficient process. Even more frustratingly, some organizations said custodians refused to share donor data. This has unfortunate consequences.

For donors, it means they can go unacknowledged and unthanked for their large gifts as nonprofits do not receive the information needed to acknowledge and thank the donors. It also prevents donors from indicating how gifts should be used, which can be significant. For large organizations such as hospitals or universities, that can be a particular challenge. Donors are often especially keen to see money support portions of a nonprofit that are closest to their heart.

For gift officers, a lack of information prevents them from building a relationship with donors. Most of the gift planning teams we spoke to were acutely aware that QCDs can be gifted every year. It is a core tenet of development work that someone who has given once is most likely to give again, provided they have been thanked and stewarded.

Development professionals identified a second barrier to QCDs reaching them: many donors do not know the option exists or find the process of making them confusing.

Our conversations and interviews have surfaced that many philanthropy professionals are actually underestimating the level of confusion that donors have around QCDs. Those who are only fielding inbound calls from more sophisticated donors may assume this to be representative of their entire donor base, but this is a common error.

Planned giving officers say that at recent estate planning sessions with donors, as high as 75% of all the questions are about QCDs.

In reality, even though this is one of the most tax-efficient ways for donors over 70 to give, very few have a robust understanding of the process. Planned giving officers say that at recent estate planning sessions with donors, as high as 75% of all the questions are about QCDs. Conversations with older donors confirm this level of confusion.

Organizations are poorly positioned to help donors, as each IRA custodian has a different process for making a gift – many of them quite arduous. In our research, the average time it took a user to find the correct forms from their IRA custodian was 25 minutes – and for some custodians, it was more than an hour, often involving being on hold multiple times for more than 20 minutes each.

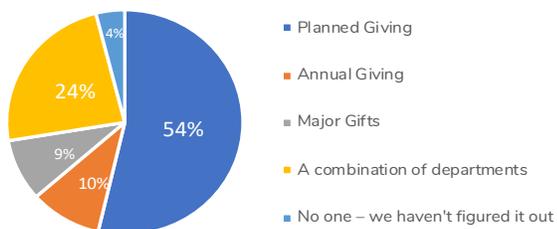
Uneducated donors run a particular risk that is unique to QCDs: These gifts only count toward the current tax year if the checks are cashed by the charity before midnight on December 31st of that calendar year. Many donors are unaware of this, and risk paying a large fine (and being quite upset with the charity) if these activities are not sufficiently punctual. (You can read more about these risks [here](#).)

25 Minutes
Average time it takes a user to find the correct QCD forms

The third primary challenge is that QCDs are slipping through the cracks at many organizations, as they live in a gray area between annual giving and planned giving. While planned giving departments have traditionally taken

ownership over giving from retirement accounts, QCDs are actually replacing annual gifts for many donors. And checks are routinely routed to the main development office, meaning the right department may never see and record the gifts at larger institutions.

Which part of your organization holds responsibility for QCDs from IRA Rollovers?

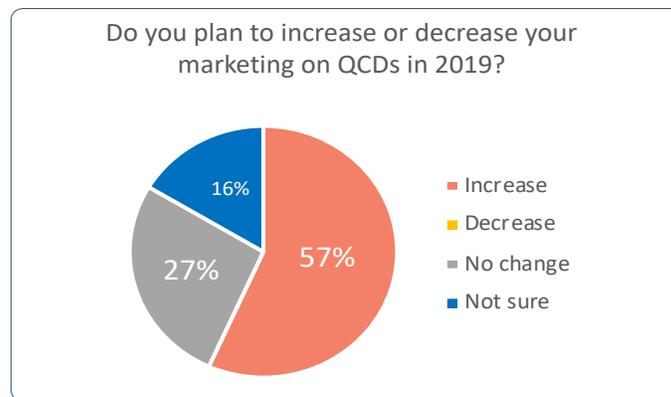


Recommendations: How to win at QCDs in 2019

Based on these findings, we recommend the following four actions for ambitious development offices.

Recommendation 1: Increase marketing & donor education around QCDs.

Every supporter over 70 should be receiving information about how to make a QCD gift, given that standard giving no longer has tax advantages for many. This will result in larger gifts in greater quantity. The good news is that many organizations already plan to do exactly this in 2019.



Recommendation 2: Simplify the process for donors.

Making a QCD is an unnecessarily arduous endeavor, thanks to little support from IRA custodians. Make certain to have easy routes for donors to notify you of gifts, and be guided through the process for each custodian.

Organizations should also develop processes for donors to be able to designate gifts from QCDs (especially at more complex organizations), which is largely impossible in the current environment.

(Full disclosure: FreeWill has developed a digital portal that interfaces with each of the 15 top IRA custodians to make QCD giving much easier for donors, while providing perfect information to nonprofits.)

Recommendation 3: Make a re-engagement plan

Donors who make a QCD gift this year are extremely likely to consider making one the following year, as they continue to have required distributions annually.

Once a donor has made more than one QCD, gift officers should initiate a conversation to see whether that donor is willing to consider naming the organization as a partial or full beneficiary of the account.

Recommendation 4: Clarify internal roles and goals

Chief Development Officers and fundraising leaders must realize that this new area of giving may not have a natural home. He or she should assign specific ownership and goals around QCDs to an individual department and person to avoid a missed opportunity.

Need help? FreeWill has built an intuitive, customizable platform to help donors make qualified charitable distributions directly from their IRAs.

This tool integrates with the official forms and process of the top 15 IRA custodians and empowers donors to give to the programs of their choice, while giving all the necessary data and information to gift officers.

To request a demo, go to www.FreeWill.com/nonprofits

About this report

This report is created by the FreeWill Team in response to the sector-wide surge in 2018 in giving via qualified charitable distributions (QCDs) from Individual Retirement Accounts (IRAs).

Our research comprised of conversations with and qualitative survey results from hundreds of nonprofit organizations, ranging from \$1M to \$1B in total revenue.

This is the first report of its kind in a newly important field. We welcome all feedback, which can be shared with Patrick Schmitt at Patrick@FreeWill.com.

About FreeWill

FreeWill is a social venture which was founded at Stanford University in 2016, dedicated to innovation in planned giving, philanthropy, and estate planning.

To date, FreeWill has generated more than \$400 million in new gifts for more than 1,000 nonprofit organizations. The [influential original research](#) on how technology and demographics are changing philanthropy by FreeWill co-founders Jenny Xia Spradling & Patrick Schmitt was published in the *Stanford Social Innovation Review*. FreeWill's work has since been featured in the *New York Times*, the *Chronicle of Philanthropy*, *Forbes*, and dozens of other media outlets.

