

2020 REPORT ON

# Qualified Charitable Distributions from IRAs

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What the fastest growing area of philanthropy means  
for your organization



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Dear friends,

Thank you for your interest in our 2020 report on Qualified Charitable Distributions. We're looking forward to sharing our latest research and insights with you.

In the last three years, FreeWill has worked with nearly 300 nonprofit partners to transform the estate planning process. Our free, warm, and intuitive online tools have helped over 100,000 people commit more than \$1.1 billion to great causes. Along the way, we have learned a lot about what helps people give, as well as how simple, straightforward tools can transform the fundraising process for nonprofits and broaden their impact.

After our partners started talking to us about Qualified Charitable Distributions (QCDs) from IRA accounts in late 2018, 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 have created an important moment for development professionals.

Those conversations resulted in the launch of our QCD tool alongside the first edition of this report in Spring 2019. We hoped this tool would help eradicate both the unnecessary barriers donors find in making QCDs and the barriers nonprofits encounter in building a relationship with them.

The first year of our tool has been an important learning experience for both us and our nonprofit partners. We're excited to share our research and learnings with you, as well as the recommendations we make as a result. We hope this report will help you and your organizations improve your fundraising strategies around QCDs and build stronger donor relationships.

We'd love to hear your thoughts on our findings, and thank you for reading.

A handwritten signature in black ink that reads "Patrick Schmitt". The signature is written in a cursive, flowing style.

Patrick Schmitt  
Co-CEO, FreeWill  
February 2020

## What is a Qualified Charitable Distribution?

Qualified Charitable Distributions (QCDs), also known as “IRA Charitable Rollover Gifts,” are distributions paid directly from an IRA to a charity. Because QCDs (in most cases) lower one’s overall taxable income (as opposed to increasing deductions), they are one of the most tax-efficient ways for older donors to make charitable gifts.

Anyone 70.5 or older can give QCDs from a traditional IRA. Required Minimum Distributions (RMDs) — the amount that IRA owners must withdraw from their accounts after a certain age — create a strong sense of urgency for them to donate. If they do not meet their RMDs, IRA owners face a large tax penalty. This provides them with an incentive to either withdraw those amounts (increasing their taxable income) or to donate them as QCDs.



If you're either **over age 72** or were at least **70.5 years old** before **January 1, 2020**, IRS rules require you to make an annual **Required Minimum Distribution (RMD)** from your traditional IRA



**50% PENALTY TAX**  
IF YOU DON'T WITHDRAW  
YOUR RMD



**UP TO 37% FED INCOME TAX**  
IMPOSED ON NORMAL  
WITHDRAWALS FROM YOUR IRA

Until recently, IRA owners had to start taking RMDs in the tax year they turned 70.5. However, a new law signed in December 2019 — the SECURE Act — changed the RMD age to 72 (apart from anyone who had already turned 70.5 before the law went into effect). We explore how this changes QCDs in 2020 on page 12 of this report.

It is also important to note that 401(k)s are not eligible for QCDs. Roth IRAs are eligible, but are already tax-free, so donors will not have the same tax advantages as those with traditional IRAs. This means that there is a clearly defined and very large group of people — those over 70.5 with traditional IRAs — who will benefit from making QCDs.

*Surveyed nonprofits report that 46% of their donor bases are over 70 years old.*

QCDs do not have a minimum gift requirement. However, the maximum amount that donors can give annually is \$100,000. They can make these gifts year after year, providing nonprofits with a tremendous opportunity to steward QCD donors into annual givers.

## Tax benefits for QCD donors

With recent tax changes, QCDs are now the only way for many donors over 70.5 to see meaningful tax benefits from their charitable contributions.

The [Tax Cuts and Jobs Act of 2017](#) (TCJA) almost doubled the standard deduction for tax years 2018 through 2025. For the 2019 tax year, the standard deductions were \$24,400 for married couples filing jointly (couples can add an extra \$1,300 deduction per person over 65), \$18,350 for heads of household, and \$12,200 for single filers and married couples filing separately. The TCJA also capped the itemized deduction for state and local taxes (SALT) at \$10,000 per year.

This means that most taxpayers now see a larger tax break from taking the standard deduction. Itemizing deductions, such as charitable contributions, has become less common. The [number of taxpayers itemizing deductions](#) fell from around 30% to 10% for the 2018 tax year.

**10%**  
of taxpayers itemized deductions in 2018, down from 30% in 2017

However, traditional IRA holders can still see a tax benefit by giving through QCDs. These gifts count toward their RMDs while excluding the donated amount from their taxable income.

Example: Federal income tax for a couple giving with and without QCDs in 2018\*

	Without a QCD	With a QCD
Adjusted Gross Income (AGI)	\$125,000 (\$60,000 in RMDs)	\$120,000 (\$60,000 in RMDs minus \$5,000 in QCDs, which doesn't count toward AGI)
Standard deduction (\$24,000 plus \$1,300 each for being over 65)	\$26,600	\$26,600
Federal taxable income (AGI minus standard deduction)	\$98,400	\$93,400
Total charitable contributions	\$5,000	\$5,000 (via QCD)
Federal tax	\$13,527	\$12,427

\*Married couple over the age of 75 filing jointly

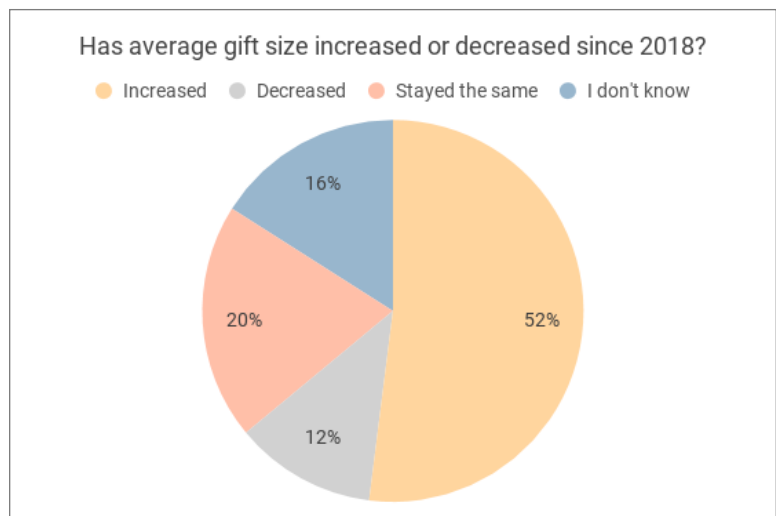
In the above example, if the couple makes charitable contributions using QCDs, they will receive a tax savings of \$1,100 while still having the same donor impact.

## QCD gifts are getting larger

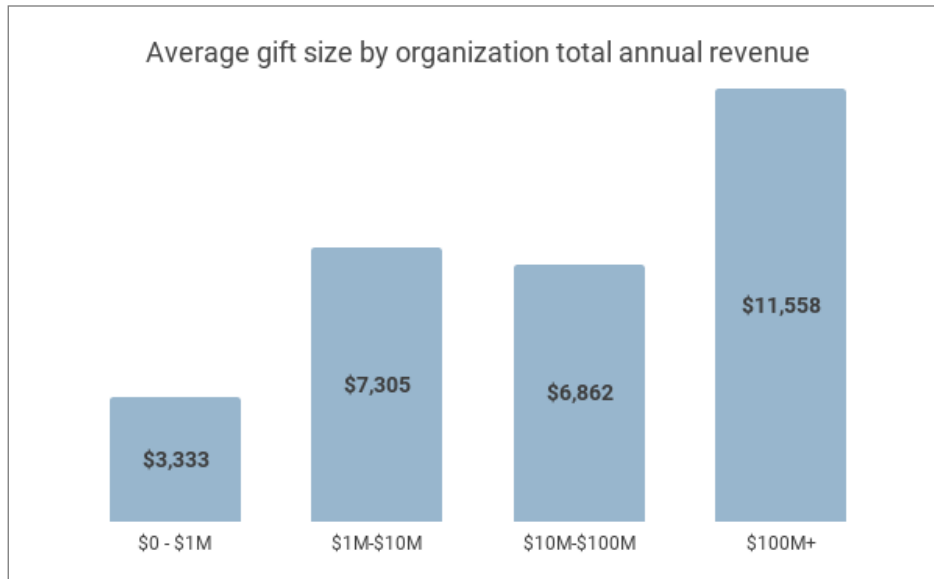
We surveyed more than 100 nonprofits over the last two years, asking them about their QCD gifts. One of the biggest takeaways is that the size and quantity of gifts have been increasing.

Over half of respondents reported that the average size of QCD gifts to their organization has increased over the past year. Only 12% said the average decreased, while 20% said their average gift sizes stayed the same.

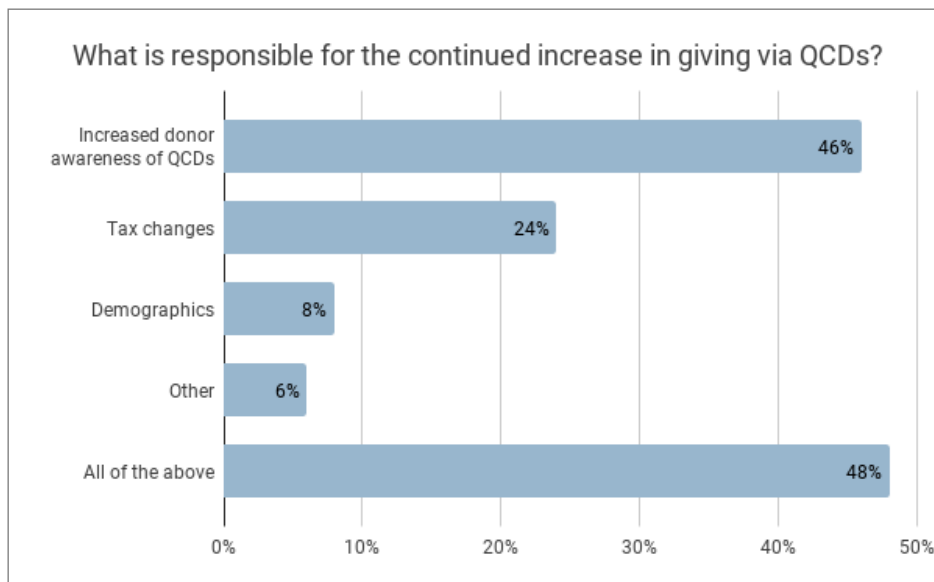
The average QCD gift in 2019 was \$7,900. The smallest average gift



size was \$200 while the largest was \$37,500. Organizational size also had an impact on the average gift size with large organizations generally seeing larger gifts.



These changes are most likely driven by a greater awareness among IRA owners on the new tax advantages of giving with QCDs instead of standard donations. In fact, 46% of survey respondents specifically mentioned increased donor awareness around QCDs as one of the most critical factors in driving growth.



## More and more donors are giving through QCDs

Beyond gift size, nonprofits have also seen a surge in the overall number of QCD gifts. From our surveys, we found that the average growth in QCDs from 2018 to 2019 was 67%. We

**2.9X**

avg growth in number of QCDs from 2017 to 2019

estimate that this is a 2.9X increase from 2017. In 2019, only one organization saw a decrease in QCD gifts.

Along with increased donor awareness, the main factors contributing to this growth are tax and demographic changes.

While the SECURE Act may affect the number of new QCD donors this year, the 2017 tax changes around standard deductions appear to have encouraged previous donors to give through their QCDs instead. Nonprofits reported that on average 91% of their QCD gifts in 2019 came from previous donors, and 58% specifically came from previous QCD donors.

Furthermore, there are currently 10,000 Baby Boomers turning 70 every day. This makes 70 to 80-year-olds the fastest growing age bracket in the US — the same age bracket that is eligible for QCDs. This age group will continue to grow dramatically over the next ten years, providing unprecedented opportunities for nonprofits to attract valuable new donors.

**91%**

of QCD gifts came from previous donors

## Nonprofits are getting better at marketing QCDs

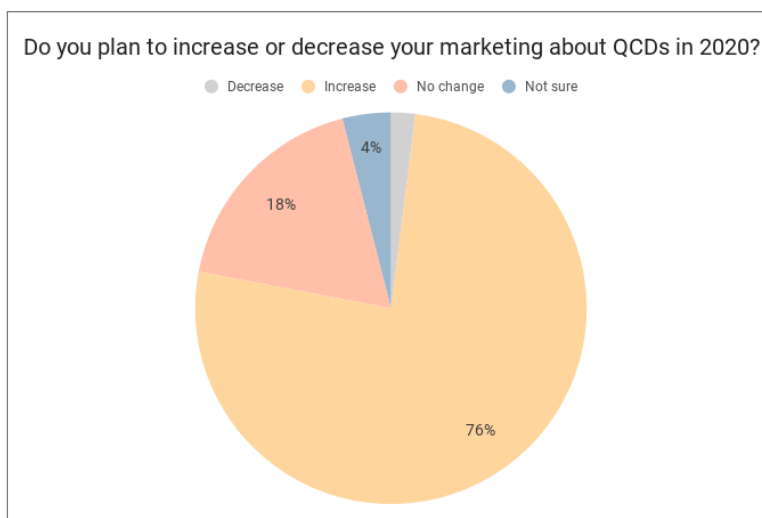
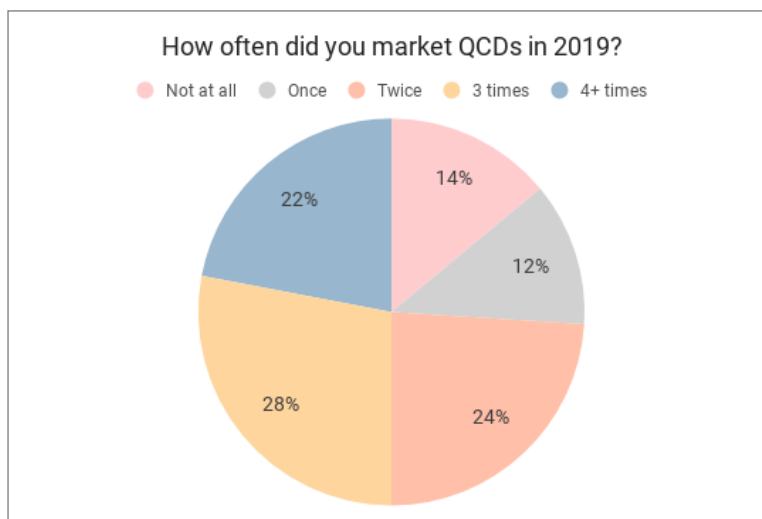
As QCD gifts increase, nonprofits are leaning into the opportunities around them by dramatically broadening and deepening their donor engagement.

In last year's survey, 57% of respondents said that they planned to increase their marketing on QCDs in 2019. And the vast majority of nonprofits appear to have followed through on this goal.

In our 2020 survey, 50% of respondents said they marketed QCDs to their prospective donor lists three or more times in the past year. Only 14% of 2020 respondents said they didn't market QCDs at all as opposed to 23.9% of respondents in our 2019 survey.

The most common ways for nonprofits to market QCDs are through emails, 1-on-1 gift officer conversations, and direct mail, such as letters and postcards.

Over 46% of respondents' marketing databases are over 70 years old, so it makes sense for them to double down on their outreach efforts this year. 76% said they are planning to increase their marketing efforts around QCDs in 2020.



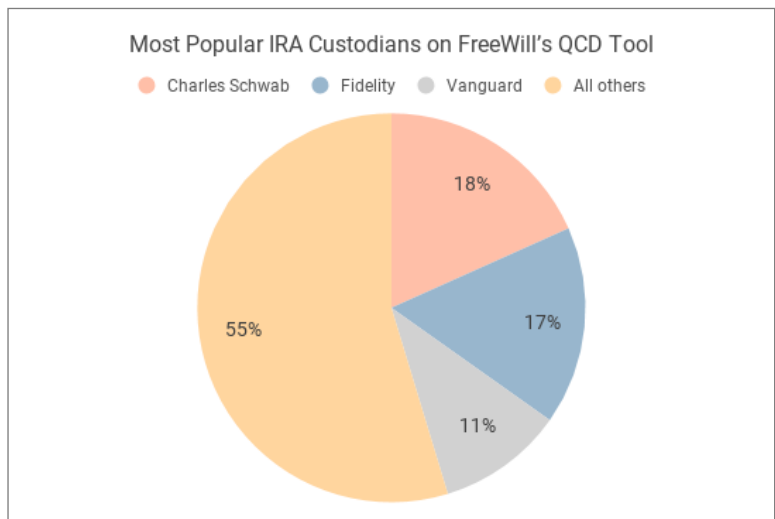
## Donors still find it confusing to give through QCDs

Despite more marketing, many donors are still confused about how to make these types of gifts. And dealing with this confusion is one of the biggest challenges that nonprofits face around QCDs.

Even though QCDs are the most tax-efficient way for older donors to give, very few have a robust understanding of the process. At estate planning sessions with donors, planned giving officers continue to say that as high as 75% of all questions are about QCDs. Conversations with older donors confirm this level of confusion.



The most common way to make a QCD is for donors to submit a request to their IRA custodian, such as Fidelity, Vanguard, or Charles Schwab. The custodian then sends money directly to the requested nonprofit. However, each IRA custodian has a different process for making a gift — many of them quite arduous. This puts organizations in a poor position to help donors.



In our research, donors took an average of 25 minutes to find the correct forms from their IRA custodian. It took them significantly more time to find the correct nonprofit information, fill out the form, and mail it. For some custodians, it took donors more than an hour, and often included being put on hold multiple times for more than 20 minutes each.

**1+ hour**  
average time it takes  
a user to find and fill out  
the correct QCD forms

A second, less common, method for donors to give via QCDs is to use an IRA checkbook (a self-directed IRA where the owner has full control over investments). Yet, neither of these options provides nonprofits with the foundation for an intuitive donor journey or the basis to build a relationship with these donors.

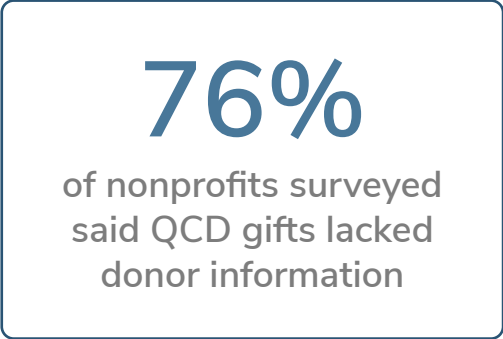
Furthermore, uneducated donors run a particular risk that is unique to QCDs. These gifts only count toward the current tax year if (for most donors) the distributions are processed by the IRA custodian before midnight on December 31st of that calendar year. Many donors are unaware of this and risk paying a large fine if these activities are not completed in time. (You can read more about these risks [here](#).)

## Nonprofits are struggling to track QCD gifts

To take advantage of the growth in QCDs, nonprofits need to be able to track gifts and build relationships with their donors.

Yet, in 2019, 77.2% of organizations said their top challenge was the lack of donor information shared by IRA custodians. And this year, 76% of respondents had the same issue.

Organizations often receive a check from an IRA custodian 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. This may discourage them from giving again. It also prevents them from indicating how charities should use the gifts. This can be a particular challenge for large organizations like hospitals or universities where donors are often keen to see money support areas of a nonprofit that are closest to their heart.

For gift officers, a lack of information prevents them from building donor relationships. Most of the gift planning teams we spoke to were acutely aware that donors can give QCDs every year. It is a core tenet of development work that a donor who has given once is more likely to give again, provided the organization thanks and stewards them.

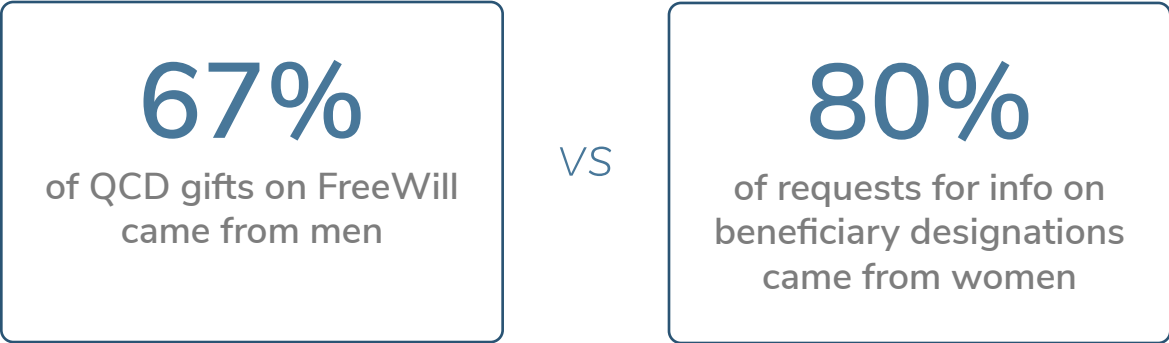
## New insights from our QCD giving platform

In the past year, we have partnered with more than 100 nonprofits to implement our QCD tool. This has allowed us to collect interesting insights on donor demographics and giving tendencies.

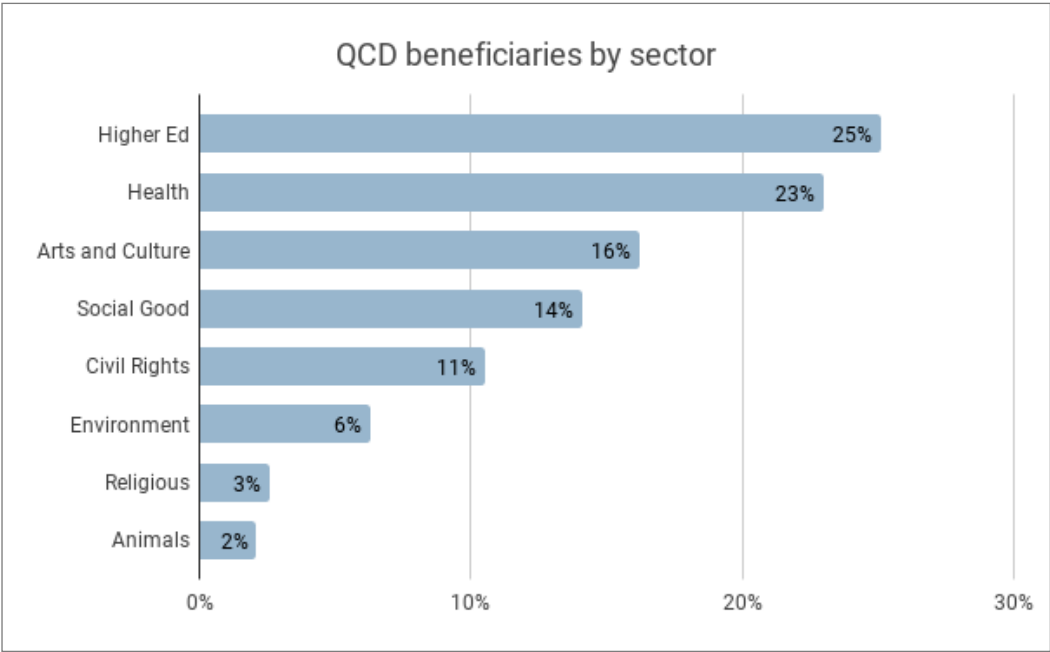
Baby Boomers are America's largest and most affluent generation, as well as at the age where they qualify for QCDs. So it wasn't surprising to find that they account for the vast majority of QCD giving.

This generation collectively holds more than \$9 trillion in their retirement accounts. The large dollar amounts that they give reflects this.

When this generation began opening IRAs, white-collar workplaces in America were predominantly male. We see this reflected in our data where men are the most valuable donors now. In 2019, men gave 67% of gifts on our platform, making up 74% of total money given from QCDs. However, women were more generous in the long term. 80% of requests for more information on IRA beneficiary designations to nonprofits came from women.



Higher education and health-related causes received almost half of all QCDs processed on our platform. 25.1% of QCDs went to the higher education sector, 23% went to health, and 16.2% went to arts and culture organizations.



## Looking forward: What the SECURE Act means for QCDs in 2020

In December 2019, President Trump signed the SECURE Act. This law pushed back the age of Required Minimum Distributions for IRA owners. Previously, IRA owners had to start taking RMDs during the tax year in which they turned 70.5. Starting this year, IRA owners are still able to make QCDs at the same age, but they don't have to take RMDs until the year they turn 72. (People who turned 70.5 in 2019 are still required to take RMDs.)

This means that there will be very few individuals who will have first-time RMDs in 2020. (The only "new RMD takers" will be people who had employer-sponsored IRAs and have retired in 2019.)

$$\begin{array}{r} \text{\# of IRA owners taking RMDs in 2019} \\ + \text{\# of IRA owners over 70.5 who had employer-sponsored IRAs} \\ - \text{\# of IRA owners who had RMDs in 2019 and passed away} \\ \hline = \text{IRA owners required to take RMDs in 2020} \end{array}$$

IRA owners between 70.5 (not including those who turned 70.5 in 2019) and 72 can still make QCDs. They may do so to reduce future taxable income, but they will not see tax benefits this year.



The SECURE Act also removed the age cap for IRA contributions and reduced QCD maximums as a result.

Previously, individuals could not make contributions to a traditional IRA during and after the year in which they turned 70.5. Now IRA owners are able to make contributions regardless of their age.

If an individual makes an IRA contribution after 70.5, the QCD maximum for their first gift is reduced by the aggregate amount of IRA contributions in the years since they turned 70.5.

### Example: IRA Contributions & Limits to QCDs

Year	IRA contribution	Gift from IRA	Tax consequence
2020	\$7,000	\$0	—
2021	\$5,000	\$0	—
2022	\$0	\$50,000	\$12,000 is a tax-deductible gift (matches previous post-70.5 IRA contributions). \$38,000 counts against donor's RMD and lowers income as a QCD.
2023	\$0	\$50,000	All \$50,000 counts against donor's RMD and lowers income as a QCD.

The ability to continue contributing to IRAs will result in more funds in IRAs overall. It will most likely increase the average size of QCDs going forward as well. However, given the IRA contribution limit of \$7,000 per year and the limited time for those investments to grow, this will be a relatively small effect.

The decrease in QCD maximums due to post-70.5 contributions should also have relatively small effects, albeit negative. It will only affect donors who are continuing to contribute to their IRAs. Since most of this group is retired and this allowance is new, this will be a very small portion of any donor base.

## Recommendations: How to grow QCD gifts in 2020

Following these steps will help development offices increase their QCD gifts and build stronger donor relationships.

### Recommendation 1: Increase donor education around QCDs

Most of the organizations we surveyed had plans to increase marketing around QCDs this year. However, it's important to market them effectively in order to help donors.

Remember that donors are much more confused than you think they are — even more so with new changes from the SECURE Act. Nonprofits should send every supporter over 70 information about how to make a QCD gift. This should outline the tax benefits and new legislation, as well as show the impact of their gifts.

If your organization doesn't have age data on your supporters, now is the time to collect it. Try emailing your supporters quizzes or surveys to learn their age, or including information on the different ways that people support your organization. For example, an email can describe gifts of stocks or appreciated assets, Qualified Charitable Distributions (for those over 70.5 with an IRA), or becoming a monthly donor as three powerful ways to support your mission. This way your nonprofit won't isolate younger supporters, but will still educate your target audience.



**Recommendation 2: Make it easier to give and track gifts**

Making a QCD is an unnecessarily difficult task for donors, thanks to little support from IRA custodians.

We recommend creating easy ways to guide donors through the process, and to notify you of gifts. It's important to tackle this challenge now in order to tap into the growing awareness of QCDs. Investing in and building these processes will decrease donor friction and increase the number of gifts you receive.

Plus, it will make sure that you can track the gifts coming in. By tracking gifts, you'll be able to thank and steward donors into annual QCD givers.

*“Checks from financial institutions don't say if it's a QCD or not. We feel an obligation to confirm and it's very labor-intensive”*

*- Planned giving officer, community foundation*

Organizations should also develop processes for donors to be able to designate gifts from QCDs. This is especially important at more complex organizations, where donors want to see gifts go to the program areas that matter most to them.

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

### Recommendation 3: Re-engage your QCD donors

Nonprofits said that over 58% of their QCD gifts were from donors who had previously given QCDs. Since these donors have to take RMDs each year, the ones that have made QCD gifts previously are extremely likely to consider making another.

Nonprofits can make the most of this opportunity by developing relationships with their QCD donors. Thank your donors for their gifts and keep them informed about the impact of their donations.

We also recommend that gift officers send reminders six weeks before a donors “QCD-versary” (the date of their previous donation) to re-engage them in the giving process.

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

Taking these steps now will allow organizations to increase the size and quantity of their QCD gifts in 2020 and beyond.

**58%**

of QCD gifts came from  
previous QCD donors

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 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 [FreeWill.com/nonprofits](https://FreeWill.com/nonprofits)

## About this report

This report was 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) and continued growth in 2019.

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 second edition of this Report on Qualified Charitable Distributions from IRAs. You can download the 2019 edition of the report [here](#). We welcome all feedback, which can be shared with Patrick Schmitt at [Patrick@FreeWill.com](mailto: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. FreeWill is currently based in New York City, where a team of 50+ engineers, lawyers, designers, and fundraising experts find joy in supporting nonprofits doing amazing work.

To date, FreeWill has generated over \$1 billion in new gifts for thousands of nonprofit organizations. The [influential original research](#) on how technology and demographics are changing philanthropy by FreeWill co-founders Jenny Xia Spradling and 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. FreeWill's co-founders were named "Top 50 Philanthropists" by Town & Country in 2019.

