CAPINCROUSE LLP

Qualified Charitable Distribution Trap for IRA Checkbook Holders

By Ted R. Batson, Jr., Partner

Qualified charitable distributions (QCD) from an IRA, also known as “charitable IRA rollovers,” have been a part of the Internal Revenue Code for some time. IRA owners aged 70 ½ and older can make direct distributions from their IRA to a qualified public charity and avoid including the distribution in their taxable income. A QCD also counts toward satisfying the IRA owner’s requirement to make required minimum distributions from his or her IRA each year.

IRA Checks Written at the End of the Year

We recently learned of a potential pitfall for IRA owners whose account is with a custodian that provides the owner with a checkbook they can use to write checks on their IRA account. In this type of arrangement, the IRA custodian is not aware the check has been written until it clears the IRA owner’s account. Accordingly, if an IRA owner writes a check in 2018 but it does not clear the account until 2019, the custodian is unable to include the check in its total distributions for the year when determining whether the IRA owner has met the required minimum distribution requirement. This applies to checks written for any purpose, including QCDs.

Consider the following example:

> *Example*: Best IRA Accounts (“BIA”) is the custodian of John Smith’s IRA account. BIA provided John with a checkbook from which he periodically writes checks. As of December 29, 2018, John still needs to make distributions from his IRA account totaling $4,500 to meet his annual required minimum distribution for 2018 and avoid a penalty.
>
> On Saturday, December 29, 2018, John writes a check for $5,000 to We Care, Inc., a qualifying public charity. He mails the check the same day. We Care, Inc. receives the check on Monday, December 31, 2018, and includes it in its deposit for that day. John’s check clears his account at BIA in the normal course of business on January 4, 2019.

John’s check to We Care, Inc. is a QCD because it was written to a qualifying public charity. However, because BIA first became aware of the check when it cleared the account on January 4, 2019, BIA will count the $5,000 distribution as a 2019 distribution, not a 2018 distribution. This means John will have failed to meet the minimum distribution requirement for 2018 and will owe a penalty.

Should BIA treat the check as a 2018 distribution? After all, John both wrote and mailed the check in 2018. From BIA’s point of view, this is a matter of having notice. Although the check was mailed and therefore postmarked in 2018, BIA is not in possession of the postmarked envelope; We Care, Inc. is. Accordingly, BIA’s only information about the check is when it cleared the account.

What could John have done differently? Other than having written the check to We Care, Inc. in plenty of time for the check to clear his account before December 31, 2018, John could have contacted BIA and requested that BIA write the check to We Care, Inc. Assuming that BIA wrote the check by December 31, 2018, in this scenario John could reasonably expect BIA to count the check

If your charity routinely reduces operations in the latter part of December, be aware that you could have donors who are unhappy that their checks were not deposited promptly.

toward his 2018 required minimum distributions because BIA had notice prior to the December 31, 2018 deadline.

What Charities Should Know About This Issue

If your charity routinely reduces operations in the latter part of December, be aware that you could have donors who are unhappy that their checks were not deposited promptly. For example, a donor who writes and mails a check on December 20 might reasonably expect that it will be deposited in time to clear before December 31.

You also may want to make donors aware of this issue. Information shared through your website, newsletters, and other donor communications will help spread the word and reduce the opportunity for a negative donor experience.

If you have any questions, please contact us at info@capincrouse.com.

About the Author

Ted R. Batson, Jr., Partner and Tax Counsel
Professional Practice Leader – Tax
tbatson@capincrouse.com
317.885.2620, ext. 1150

As a certified public accountant and tax counsel, Ted advises exempt organizations of all sizes on a wide range of issues. This includes consulting on tax and employee benefit related matters, representation before state and federal tax authorities, and assistance with firm audit or advisory engagements to formulate advice and counsel on important operating and tax issues. Ted also leads the firm's tax preparation practice, including IRS Forms 990 and 990-T and related state forms.

Note: Although licensed to practice law in Indiana, Ted's services through CapinCrouse do not involve the practice of law and consequently do not result in the creation of an attorney-client relationship.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. Since 1972, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

CapinCrouse is an independent member of the BDO Alliance USA.

AN INDEPENDENT MEMBER OF BDO ALLIANCE USA

[1] This issue was brought to our attention in a Planned Giving Design Center post by Professor Russell James of Texas Tech University. Accessed December 10, 2018.