Qualified Charitable Distributions

How charitable retirees can pay less in taxes

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While many complain about the world that is, a few people try to shape a better one. While tax benefits are not the reason why people give, they do send an important message. If you commit to support your values financially, then the government will not spend a part of those dollars (taxes) on your behalf. Now you have both expressed your convictions, and maximized your impact by doing it efficiently.

THE PROCESS

Executing a Qualified Charitable Distribution does not have to be a difficult process, if you know what steps to follow:

- Make sure that you and your charity are eligible.
- Consult with your tax professional.
- Consult with your investment advisor. Be sure that your distribution goes directly from your IRA Trustee to the recipient organization.
- Receive an acknowledgement of your contribution from the charity.

THE REPORTING

It is common for the custodian of your IRA to report your distribution as a normal withdrawal. This Form 1099-R will report the entire distribution from the IRA, including the QCD. Your tax preparer will need to properly report the details of your QCD on your Form 1040.

WHAT IS A QUALIFIED CHARITABLE DISTRIBUTION?

In general, distributions from a traditional IRA are taxable in the year that you receive them.

A Qualified Charitable Distribution (QCD) is a nontaxable distribution made directly from your IRA trustee to a tax exempt organization such as a charity or church.

Under current federal law, a taxpayer age 72 (70 ½ if you reach 70 ½ before January 1, 2020) or older can make charitable distributions of up to $100,000 per year without incurring taxable income. This gift must come directly from your IRA and can satisfy some or all of your required minimum distribution (RMD) for the year. If you file a joint return, your spouse (if eligible) can also execute a QCD and exclude up to $100,000 from taxable income as well.

THE DETAILS

These are the eligibility requirements for a distribution to qualify as a QCD:

- At the time of the distribution, the IRA holder must be at least age 72 (70 ½ if you reach 70 ½ before January 1, 2020).
- Donor Advised Funds and supporting organizations are not eligible recipients of a QCD.
- Only distribution amounts that would have otherwise been treated as taxable income, can enjoy the exclusion.
- The full amount paid to charity would have been allowable for a charitable contribution.
- You may not reimburse yourself for a prior gift. The distribution must go directly to the charity from the IRA trustee.

THE TRADE-OFF

You may not get to claim an itemized deduction for the donation, since using a QCD means never having to realize the taxable income.

THE PERKS

Lowering your Adjusted Gross Income (AGI), by excluding an IRA distribution, may benefit you in several ways:

- Married couples with AGI above certain levels will begin to lose their deductions as their AGI increases. This is the itemized deduction phase-out. Excluding IRA distributions from AGI will reduce the impact of such a phase-out.
- The Medicare tax on investment income is assessed on couples with modified income over $250,000 (singles over $200,000). It may be possible to use a QCD strategy to stay below the threshold.
- Your modified AGI determines the taxation of Social Security benefits.
- Reaching deductibility thresholds for Medical Expenses, Miscellaneous Itemized Deductions, and other expenses may be easier with a lower AGI.