

## **Federal Income Tax Tip**

This tax tip only applies to persons who are 70 ½ or older, take a Required Minimum Distribution (RMD) from your IRA, and make contributions to charities (church or others). If those conditions apply, you may be able to save a significant amount of federal income tax. This deduction is well known to charities and is described in IRS Publication 590-B Distributions from Individual Retirement Arrangements (IRAs). See page 13 of the 2018 publication under Are Distributions Taxable and Qualified Charitable Distributions. Many taxpayers are not aware of the deduction.

Using a Qualified Charitable Distribution (QCD) allows a person who takes the standard deductions in place of an itemized deduction on line 8 of form 1040 to also deduct their charitable gifts. Normally one would either include the charitable gifts in the itemized deduction or not deduct the gifts if they used the standard deduction. Using a QCD allows both the standard deduction and deducting your gifts to charities. Your taxable income is reduced by the amount of money you give to charities compared to if you don't use a QCD. A secondary benefit is that the adjusted gross income used to determine how much of your Social Security income is taxable is also reduced by the same amount. This can result in a further reduction of taxable income by up to 85% of the gift amount. The bottom line is that your taxable income could be reduced by up to 185% of the total amount you give to charities. The one requirement of a QCD is that the charitable gift pass directly for your IRA to the charity. It cannot go to your checking or bank account and then be given to the charity. This requirement can be met by establishing a checking account tied to your IRA and writing checks to the charity using that account.

***If you think this deduction might apply to you, discuss it with your tax professional.***