

Federal Income Tax Tip

This tax tip only applies to persons who are 70 ½ or older and they take distributions from their IRA and make contributions to charities (church or others). If these conditions apply, you may be able to save a significant amount of federal income tax. This deduction is described in IRS Publication 590-B Distributions from Individual Retirement Arrangements (IRAs). Many taxpayers are not aware of this deduction.

Using a Qualified Charitable Distribution (QCD) allows a person, who takes the standard deduction in place of itemized deductions on line 8 of Form 1040, to also further reduce their adjusted gross income. 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 QCD amount. This can result in a further reduction of taxable income. The limit of the QCD is up to \$100,000 per person, per year. The one requirement of a QCD is that the charitable gift pass directly from your IRA to the charity. It cannot go to your checking or bank account and then be given to the charity. If it does go to you first, it becomes taxable income to you and then if donated, the gift just offsets the income which doesn't help tax wise. If you are receiving Required Minimum Distributions (RMD) and/or want to give additional amounts to charity, contact your brokerage agent for details and they will handle the paperwork for you. Mention to them that you are interested in a QCD. For a deduction in 2020 it would need to be done before you receive your RMD or any other IRA distributions. Remember this only applies to those 70 ½ or older.

In summary, money that you get from an IRA normally becomes taxable to you and the above is a way to have it sent directly to your charity and it in turn reduces your taxable income by what it would have been if you had received it. And your charity also reaps the benefits of your gift. It is a win for you tax wise and a win for your charity.

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