
# Required Minimum Distributions (RMDs) and Qualified Charitable Distributions (QCDs)

1/14/2022

**When you reach age 72, the IRS instructs you to start making withdrawals from your Traditional IRA(s).** These withdrawals are also called Required Minimum Distributions (RMDs). For some of you, 2022 may be the first year you are taking an RMD. You will make them (annually) from now on. In addition, some of the laws have changed regarding RMD's, so it pays to read on. And always remember that we are here to answer your questions and to assist you. So, please let us know how we can help you.

Those of you who have taken RMDs in previous years know that if you fail to take your annual RMD (or take out less than the required amount), the IRS will penalize you. You will not only owe income taxes on the amount not withdrawn, but you will also owe 50% more.

Many IRA owners have questions about the rules related to RMDs (especially in their first year), so let’s answer a few.

**When does my RMD have to be taken?** Your initial RMD has to be taken by April 1 of the year after you turn 72. All the RMDs you take in subsequent years must be taken by December 31 of each year.

**Is waiting until April 1 of the following year to take my first RMD a bad idea?** The IRS allows you three extra months to take your first RMD, but it isn’t necessarily doing you a favor. Your initial RMD is taxable in the year that it is taken. If you postpone it into the following year, then the taxable portions of both your first RMD and your second RMD must be reported as income on your federal tax return for that following year and may drive up your taxes.

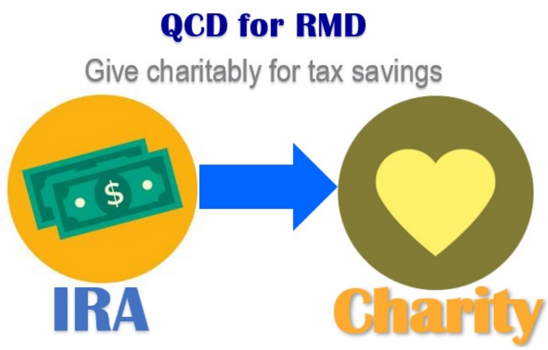
**How do I calculate my first RMD?** For an IRA owner, RMDs are based on your life expectancy and are calculated using the IRS Uniform Lifetime Table (click here to see the 2022 table). For that matter, if you Google “how to calculate your RMD,” you will see links to RMD worksheets at irs.gov and a host of other free online RMD calculators. We handle this process for you if your Traditional IRAs are held with TFG! In a nutshell, we calculate your RMD and set up instructions to your liking (one-time distribution, monthly withdrawal, etc.). If this is your first year taking an RMD, please contact us directly and we will explain the process to you in further detail.

If your IRA is held at one of the big investment firms, the firm may calculate your RMD for you and offer to route the amount into another account of your choice. It will give you and the IRS a 1099-R Form recording the income distribution and the amount of the distribution that is taxable. Note that the IRS has updated their tables for 2022 to allow for longer life expectancies, which could drive down your RMD's over time.

**When I take my RMD, do I have to withdraw the whole amount?** No. You can also take it in smaller (such as monthly) withdrawals. We can help schedule them for you. Also, remember that your RMD's are based on the previous year-end value, which is higher for many of you.

**What if I have more than one Traditional IRA?** We then calculate your total RMD by calculating the RMD for each Traditional IRA you own, using the IRA balances on the prior December 31. This total is the basis for the RMD calculation. You can take your RMD from a single Traditional IRA or multiple Traditional IRAs. We do this for you!

Some people choose to donate their RMD to a qualified charity. Doing this has many benefits, including tax savings.




## Qualified Charitable Distributions (QCDs)

**If you are an owner of a Traditional IRA interested in donating to charity, a qualified charitable distribution may be an option.**

Arguably, one of the biggest changes to the tax code from the Tax Cuts and Jobs Act of 2017 was the doubling of the standard deduction. The Joint Committee on Taxation estimates that nearly 90% of taxpayers are likely to take the standard deduction instead of itemizing. The decision not to itemize means that charitable giving doesn’t offer a tax break.

But if you are over 70 1/2, qualified charitable distributions (QCDs) can be a favorable way to make donations to charities, because a distribution that meets the requirements as a QCD is excluded from gross income (so it’s nontaxable).

The biggest tax benefit of a QCD is that it counts towards satisfying your RMD and therefore reduces your taxable income. By taking the RMD as a QCD, the QCD is never included in your Adjusted Gross Income (AGI). Also, by reducing your AGI, you may reduce the taxable portion of your Social Security benefits, as well as income-related adjustments to Medicare Part B and D premiums.

Now, let’s review some questions that people tend to have regarding QCDs.

**Do QCDs have a dollar limit?** You can make a QCD of up to $100,000 for a calendar year. For married couples, each spouse is subject to a separate $100,000 limit, leading to a total of $200,000 for a married couple.

**Do QCDs have a deadline?** A distribution must be processed by the end of the year to be considered a QCD for that year. All distributions processed between January 1 and December 31 of a calendar year can be treated as QCDs for that year, as long as they meet the other requirements.

**Must a QCD be paid directly to a charity?** Yes. A distribution made to you is not treated as a QCD. Instead, the distribution must be made payable to the charity. However, distributions made in the form of a check payable to the charity can be delivered to you, and you can then deliver the check to the charity. The charity also must be “eligible,” meaning it meets the definition under Internal Revenue Code (IRC)170(b)(1)(A), other than an organization described in IRC 509(a)(3) or a donor-advised fund (DAF).

**Can a QCD really be used to satisfy an RMD? Yes! A QCD can be used to satisfy an RMD if the QCD is processed BEFORE the RMD.** Any IRA withdrawal processed before the QCD is treated as an RMD up to your RMD due for the year, and is therefore not eligible for rollover. Let’s go through two common examples.

**Example 1:** Distribution Qualifies as a QCD

Jane’s RMD for the year is $10,000. In the first week of December, Jane (age 74) submitted instructions to her IRA custodian to process a QCD for $20,000 from her IRA. At that time, Jane had not yet made any other distributions from her IRA for the year.

Even though the $20,000 is paid to the charity and not Jane, $10,000 of the $20,000 QCD is counted towards Jane’s RMD for the year. As a result, Jane is not required to distribute any additional amount for the year for RMD purposes.

If Jane’s QCD was for $8,000, she would need to distribute only $2,000 to satisfy her RMD ($8,000 QCD + $2,000 regular distribution= $10,000 RMD).

**Example 2:** Distribution Does Not Qualify as a QCD

Tom’s RMD for the year is $10,000. He had already withdrawn $10,000 during the last week of November. During the first week of December, Tom (age 75) instructed his IRA custodian to process a QCD for $20,000.

When Tom heard that a QCD can be used to satisfy an RMD, he wanted to withdraw another $10,000 over the amount distributed in November. However, the amount was not eligible because the first distribution made during an RMD year goes toward satisfying the account owner’s RMD until the RMD is satisfied, which means that the $10,000 distributed in November is Tom’s RMD. Had Tom taken that $10,000 IRA distribution after the QCD was processed, the amount would have been eligible as a QCD.

The bottom line is that the IRA distribution must be done BEFORE the RMD to qualify as a QCD!

**Whether you choose to donate your minimum distribution (RMD) directly to a qualified charity is up to you – but, be ready for RMDs in 2022 regardless!**

Please contact us if you have any questions. We are happy to help!

*Our Mission: To guide our clients on their journey towards well-being and a prosperous life.*



**How Can We Help?**

We understand how daunting this time is for you and we are trying to provide you with helpful information.

**Do you know someone who needs a second opinion? Are they concerned with this market volatility?**

**Click here to find out how your friend or family member can get in contact with us!**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STAY CONNECTED

*Disclaimers: IRA custodians/trustees are required to report QCDs as regular distributions. Despite the fact that a QCD is nontaxable, the IRA custodian must report a QCD as a taxable distribution on IRS Form 1099-R. Your tax preparer is responsible for reporting the QCD as a nontaxable distribution on your return 1040.*
*If you submit a distribution request that is intended to be a QCD, you should notify your IRA custodian of your intention. This will help the IRA custodian to ensure that the amount satisfies the QCD requirement, including that amount that is made payable to the charity.*

*However, it is your responsibility as the IRA owner to ensure that the charity meets the requirement for being an eligible charity under the QCD rules. In addition, you must ensure that you meet the age 72 requirement before the QCD is processed.*

*If you are considering a QCD, you should consult with a tax professional about whether or not it is the most suitable option for making a donation. A CPA should also be able to determine if it makes better tax sense to donate other assets.*