

Tax Advantage and Charitable Giving with Required Minimum Distributions by Andrew Appel

There is a better way to give to charitable organizations than out-of-pocket if you are 70½ or older.

If you have a traditional Individual Retirement Account (IRA), then you will have to take annual required minimum distributions (RMDs) from it when you reach 72, by current law. The percentage is based on your life expectancy and starts around 4%, increasing each year. Contributions to a traditional IRA were made pre-tax, so distributions from a traditional IRA are taxable. This income is added to your Social Security benefits or any other income so can be high enough to push you into a higher tax bracket.

If you are 70½ or older, then you are eligible to make a Qualified Charitable Donation (QCD) from your traditional IRA. Only 501(c)3 charitable organizations, such as the church, are eligible, and the money must be sent directly to the charity. It cannot be distributed to you and then given to the charity by you. Traditional IRAs are the most common, but this also applies to SEP and SIMPLE IRAs. You can make a QCD from a Roth IRA, but there will be no tax advantage as the contribution is already tax exempt. QCDs cannot be made from 401(k) or 403(b) plans.

Gifts given to 501(c)3 charities in this manner do not count toward your income and, therefore, reduce your Adjusted Gross Income (AGI) which also lowers your state taxable income. If you were to give the same amount to the charity out of pocket, the best you could hope for would be to use that donation in your standardized deductions. With the standard deduction having nearly doubled in 2018, fewer people qualify for itemized deductions, so there is a good chance the donation would be made out of the goodness of your heart with no tax benefit. Qualified Charitable Donations were the best way to give and benefit at the same time.

All of these donations with your authorization need to come directly from your IRA financial institutional to the organization, the Unitarian Universalist Church of Bloomington. Please contact your financial advisor for advice and assistance. The IRS website also has information.

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