Tis the Season

By Amy Davis

The holiday season is upon us and our mailboxes are not only filling up with catalogs and holiday cards but also requests from charities to make a gift before year-end. As we celebrate with our loved ones, we tend to think a little more about those who are less fortunate, and many charitable organizations see a substantial spike in donations.

The 2018 Tax Cuts & Jobs Act did not directly take away the deduction for a charitable contribution, but it did reduce the benefit many taxpayers receive from those contributions. How did this happen? In 2019 the standard deduction increased to $12,200 for individuals and $24,400 for married couples filing jointly. If your itemized deductions (including charitable contributions) are less than that threshold, then you will not receive a tax benefit for those contributions.

So now what? You still may want to help those less fortunate, but you want to do it as efficiently as possible. How can you keep more money, or give more to charity, and put less in Uncle Sam's pocket? Recently Mike Davis wrote an informative article on using a donor advised fund (DAF). He referred to a triple play: 1) you can use appreciated securities to make charitable contributions so you don't have to pay the capital gains tax on the security, 2) you receive a charitable deduction in the year of the gift, and 3) you can then turn around and buy the same security you donated, and thus maintain your asset allocation while you increase the cost basis and reduce future capital gains.

A donor advised fund is a great tool for giving to charity and saving on taxes, but if you are over age 70.5 and you have required minimum distributions (RMDs) from your IRA, you may be able to save even more money with a **qualified charitable distribution** (**QCD**). A QCD allows you to direct your custodian to transfer up to $100,000 from your IRA directly to the charity of your choice and avoid including this distribution in your taxable income. And it satisfies your RMD for that year. You will not receive a charitable deduction for the gift, but a QCD allows you to get a tax benefit from a charitable gift while still utilizing the standard deduction.

Not only does the math typically work better if you don't recognize the income versus taking the charitable deduction, there are other benefits too. Think of the things negatively impacted by a higher taxable income: higher Medicare premiums, more tax withheld from your social security distributions, the additional tax you pay for the net investment income, etc.

When you make a QCD from an IRA there are a few hard and fast rules:

1) You have to be 70.5 years old (not one day shy). This may be confusing because you are able to take out your distribution anytime during the year to satisfy your RMD for the year you turn 70.5. If you are considering a qualified charitable distribution, you must wait until after the specific date you are fully 70.5 years old.

2) The distribution must come from an IRA – you cannot do this directly from a 401(k).

3) The check must be written directly from the IRA custodian to the charity. You cannot write a personal check to a charity and have your IRA reimburse you. Most custodians will send the check to your home address if you request it, which will allow you to personally present the gift to the charity.

4) The charity must be a qualified public charity; you can't do this for your private foundation or even your DAF. You can give to multiple charities as long as the total amount isn't over $100,000 per year. The IRA custodian may limit the number of gifts you can give or require a minimum dollar amount for each gift. You may wish to consult your advisor as to the requirements of your specific custodian.

If you are considering a QCD you should consider the following additional information:

Timing
If you read this article and decide it's a great idea, but you already took distributions from your IRA this year, can you still make a QCD? Maybe. If you haven't taken your entire RMD, then the portion you haven't taken can be a QCD. But the distributions you already took from the IRA are taxable income. If you think you will not make a QCD for the entire portion of your RMD, do the QCD first and then take the remainder of the distribution. This allows you the tax benefit of excluding as much of the RMD from income as possible.

What kind of IRA are you using?
Roth IRA – you don't want to do this with a Roth IRA. You are allowed to, but a Roth doesn't have a minimum distribution requirement and qualified distributions are already tax-free, so you won't save any tax money by making a QCD from a Roth IRA.

Simple or SEP IRA – if you are no longer contributing to one of these plans, then you can make a QCD from it. But if you are still working, and thus still contributing, you cannot do a QCD from the plan.

Multiple IRAs
Even if you have multiple IRAs, the total amount an individual can contribute to charity via a QCD is $100,000 per year. So, if your total RMD for the year is $150,000, you will have $50,000 of taxable income.

If you and your spouse each have an IRA and an RMD, then you each have up to $100,000 that you can give to charity each year. However, you cannot make the gift on your spouse's behalf. For example, you cannot make a $200,000 QCD from one spouse's IRA and treat it as though both spouses each gave $100,000.

In summary, if you are taking RMDs from your IRA and you are over 70.5 years old, a qualified charitable distribution can be an efficient way for you to give to charity. Resource Consulting Group has the expertise to help you accomplish this or seek alternative solutions. Please let us know how we can help.