FINANCE

Qualified Charitable Distributions can be valuable

BY LAURIE BLACKBURN

So many people dutifully save year after year for retirement. When retirement comes, some realize they've saved more than they expected. Then comes the day they are required to start making withdrawals from their retirement account, withdrawals that could result in owing taxes on a lot of additional income. In fact, for some people, these Required Minimum Distributions can increase income to the point that they see an increase in Medicare premiums.

Qualified Charitable Distributions are tax strategies available to people who are at least 70½ years old and have traditional or inherited IRAs. QCDs allow qualified individuals to distribute up to $100,000 per year directly from their IRA to a 501(c)(3) nonprofit with no federal income tax consequences. Since the distribution goes straight to the charity, it is not taxable income to the donor.

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QCD benefits to the IRA holder

A QCD results in an otherwise taxable IRA distribution not being included in your taxable income. When your RMD goes straight to the charity instead of into your bank account, the distribution is not included in your Adjusted Gross Income. Using this strategy can lower your income and may decrease the tax you pay on your Social Security income or Medicare premiums. It could also impact whether or how much you owe for the Medicare surtax.

QCDs also provide someone the opportunity to make a significant gift or fulfill a pledge when they have already exhausted their limitation on annual charitable deductions.

Who might be a good candidate for a QCD?

IRA owners or beneficiaries who are at least 70½ years of age at the time of the distribution qualify to make a QCD. People who are charitably inclined and looking to fulfill their philanthropic objectives make good candidates, especially those who make annual gifts, but do not itemize their deductions on their tax return.

The number of taxpayers not itemizing has increased significantly as a result of new tax laws. People who were not able to get tax benefits from ordinary donations can use QCDs to still get a tax benefit from their philanthropic giving.

Some things to consider about QCDs

QCDs may satisfy all or part of your Required Minimum Distribution. They may not exceed $100,000.

The financial institution will need to make a check payable directly from your IRA to a qualifying charity to have this strategy work for you.

You may want to mail a QCD check to the charity yourself to ensure that the charity acknowledges the gift is from you. Many financial institutions give IRA holders the ability to write checks directly to the charity from their IRA.

Be sure the checks have cleared by the last working day in December in order for the distribution to count for the current tax year. A good rule of thumb may be to complete your charitable giving by the beginning of December.

QCDs require no special reporting by your IRA custodian. You will receive an IRS Form 1099-R for the distribution. Make sure you provide this form to your tax advisor during tax preparation time.

While QCDs can be beneficial, IRA holders should still be careful.

If you have already taken your RMD, that amount cannot be rolled back into your IRA. This is because the IRS considers the first dollars out of your IRA as your RMD and you cannot roll over an RMD.

Exceptions to the QCD strategy are grant-making foundations, donor advised funds or charitable gift annuities. In addition, QCDs are generally not available from SEP or SIMPLE IRAs where contributions are still being made.

Perhaps most importantly, if the check has not cleared by the end of December, and it results in you not having satisfied your annual required minimum distribution, you will have tax consequences, including potentially significant penalties.

Using QCDs can be a valuable tax strategy that has the added benefit of supporting the causes that are important to you. Ask your tax advisor or financial advisor if this might be a strategy you should consider.

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