

# Qualified Charitable Distributions

## Giving from the Heart with Your IRA

Toward the end of 2015, Congress permanently reinstated a popular tax provision that allows individuals age 70½ and older to make tax-free qualified charitable distributions (QCDs) from their IRAs.

A QCD counts toward all or part of the required minimum distribution that you would otherwise have to receive from your IRA, while allowing you to escape tax liability for up to the entire distribution. QCDs may be particularly valuable if you are still working, have a generous pension, or fall in a higher tax bracket for any reason.

### RMD Guidelines

Once you reach age 70½, you must begin taking RMDs from your traditional IRA(s) each year, whether you need the money or not, or face a 50% penalty on the amount that should have been withdrawn. These distributions are generally taxed as ordinary income.

Annual RMDs are based on the account balances of all your traditional IRAs and employer-sponsored retirement plans as of December 31 of the previous year, your age in the current tax year, and your life expectancy as defined in IRS tables. You must take your RMD by December 31, except for the tax year in which you turn 70½, when the deadline is extended until April 1 of the following year.

### How QCDs Work

The IRA trustee must transfer the distribution directly from your IRA to a qualified public charity (not a private foundation, donor-advised fund, or supporting organization). The QCD exclusion is limited to \$100,000 per year. If you're married, your spouse can also contribute up to \$100,000 from his or her own IRA. You cannot deduct a QCD as a charitable contribution on your federal income tax return — that would be double-dipping.

A QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then each distribution normally carries with it a pro-rata amount of taxable and nontaxable dollars. With QCDs, the pro-rata rule is ignored and taxable dollars are treated as distributed first.

You can take an RMD any time during the year you turn 70½, but you must wait until *after* you are 70½ to make a QCD. A qualified charitable distribution may not be taken from an employer-sponsored retirement plan, such as an ongoing SIMPLE IRA or SEP IRA.

### Strategic Giving

If you request a distribution from your IRA and donate the money to a charity yourself, you would include the distribution in your gross income and then take a corresponding deduction for the charitable contribution. But because of IRS rules and limits, the additional tax from the distribution may be more than the charitable deduction.

A deduction reduces your taxable income by the amount of the charitable gift, but it does not reduce your adjusted gross income (AGI). This is a key distinction because itemized deduction and exemption phaseouts, the 3.8% surtax on net investment income, Medicare premium costs, taxes on Social Security benefits, and some tax credits are based on AGI.

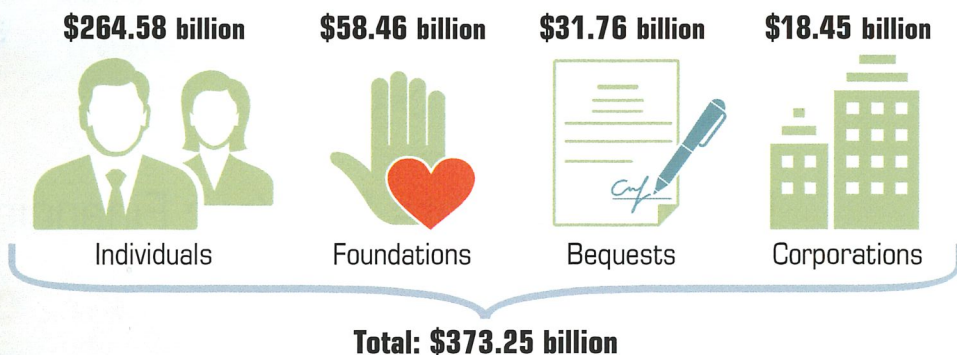
Charitable giving can typically be deducted only if it is less than 50% of your AGI. By giving directly from your IRA, you may be able to give more than 50% of your AGI and exclude the entire amount (up to the \$100,000 cap) from your taxable income. In addition, a QCD provides a tax benefit even if you take the standard deduction.

The rules for RMDs and QCDs can be complicated, especially if you have multiple tax-deferred accounts. You should consider discussing your individual circumstances with a tax professional.

## Record-Setting Generosity

U.S. charitable giving reached a new high in 2015 for the second year in a row, totaling an estimated \$373.25 billion.

### Donations by source



Source: Giving USA Foundation, 2016