Qualified Charitable Distributions from IRA

If you are 70 ½ years of age or older, you must generally take required minimum distributions (RMDs) from your IRAs. RMDs are generally taxable income in the year received. However, a Qualified Charitable Distribution (QCD) allows an individual who is at least 70 ½ years of age to donate up to $100,000 from his or her IRA directly to a public charity without the IRA distribution being included in gross income. Since a QCD is not included in income, the charitable donation is not eligible for a charitable income tax deduction, but the QCD counts toward the RMD for the year.

A QCD must be made directly from the IRA to a public charity, but a QCD cannot be made to charitable supporting organizations or donor advised funds. A check from the IRA payable to the charity and delivered to the charity by the IRA owner will qualify. There is no carryover of the $100,000 annual limit that is not used in any given year. The limit applies to each individual, so a married couple that files jointly can each donate up to $100,000 in QCDs each year as long as the QCDs come from their respective IRAs. Individuals who inherited IRAs can also make QCDs if they are at least 70 ½ years old.

RMDs are generally taxable income in the year received and increasing your adjusted gross income (AGI) may have adverse consequences because many phaseouts and limitations are tied to your AGI. If you took a RMD from your IRA and included it income, your AGI will increase even if you were able to claim a full charitable income tax itemized deduction (a “below-the-line deduction”). Therefore, avoiding having a distribution being included in income in the first place will usually be more advantageous, and a QCD accomplishes that.

For example, a lower AGI may:
1. Reduce the amount of Social Security benefits that are taxable
2. Increase the medical expense itemized deduction.
3. Reduce the net investment income tax
4. Reduce Medicare premiums

Also, under the Tax Cuts and Jobs Act of 2017 (TCJA), the standard deduction was doubled compared to prior years ($24,400 for married couples filing jointly and $12,200 for single filers in 2019) and the state and local tax deduction is capped at $10,000 annually for tax years 2018 through 2025. Therefore, many people who previously itemized deductions will now simply claim the standard deduction instead — people taking the standard deduction cannot deduct their charitable contributions. But with a QCD, a charitable contribution can still essentially be made with pretax dollars as it is not included in income to begin with.
State law may vary on the treatment of QCDs, so be sure to consult with your tax advisor.

If you have IRA assets that you will not need for retirement and you are charitably inclined, then a QCD may be an appropriate strategy for you.

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