

# TRANSITIONS

## WHAT ARE QUALIFIED CHARITABLE DISTRIBUTIONS?

Are you 70½ years or older and are subject to a Required Minimum Distribution (RMDs) from your IRA? Have you considered donating part of your required minimum distribution from your Traditional IRA to a qualified charity?

For a traditional IRA, a Qualified Charitable Distribution (QCD) is a philanthropic way to distribute part of your RMD amount to your favorite qualified charity directly from your IRA. The amount of this distribution counts toward your RMD for the calendar year. QCD rules allow you to make IRA distributions payable directly to a qualified charity of your choice without treating the distribution as taxable income. This rule applies only to traditional IRAs. Roth IRAs have no RMDs during your lifetime. SEP and SIMPLE IRAs also do not qualify.

To be eligible to make a QCD from your IRA, you must be age 70½ or older in the year of the distribution. Then, the QCD distribution must transfer directly from your IRA to a qualified charity. "Qualified charity" is an official IRS designation. The list of qualified charities includes all 501(c)(3) organizations. It is important to verify an organization's tax-exempt status and eligibility to receive tax-deductible charitable contributions. You cannot give to a charity and then receive a reciprocal benefit from the charity. For instance, you could give to a university endowment fund but cannot give to the school and then apply the amount towards a family member's tuition. If you take the cash out of your IRA, put it in the bank, and then write a check to your charity, it no longer is treated as a QCD.

There are tax benefits when using a QCD. Normally, your entire IRA distribution is taxed as ordinary income. Making QCDs from your IRA lowers the amount of the remaining required minimum distribution, which in turn lowers your



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taxable income. There is a \$100,000 annual limit for a single person and \$200,000 for a married couple, on deducting QCDs. In today's world, the paperwork is such that there also is a practical minimum threshold of \$5,000 for a QCD.

To illustrate the tax benefit, assume you file a joint tax return, your required minimum distribution from your IRA is \$30,000, and you expect to have \$100,000 of taxable income. You decide to donate \$20,000 to a qualified charity. Instead of writing a personal check to the charity, you make the QCD from your IRA. By making this donation directly from an IRA, your taxable income will decrease from \$100,000 to \$80,000. This reduces your federal tax rate from 22% down to 12%, which amounts to \$4,295 in federal income tax savings. The remaining \$10,000 of your RMD, can be distributed and used as you so please.

Aside from the tax savings, the QCD should be used by those that have sufficient financial resources to make donations to a charity without impacting their future lifestyle. In this unique post pandemic time period where the underserved are in greater need, the use of QCDs to targeted charities can make a positive impact to restore the fabric of our society.

Feel free to contact us with any questions related to QCDs. We can also help navigate you through the process to ensure that the QCD is handled in a timely manner.

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