Making a Charitable Gift from Your IRA

Follow the rules, and you might get a big federal tax break.

Is your annual IRA withdrawal a bother?

If you are an affluent retiree, that might be the case. The income is always nice, but the taxes that come with it? Not so much.

If only you could satisfy your yearly IRA withdrawal requirement minus the attached taxes. Guess what: There might be a way.

If you gift traditional IRA assets to charity, you could see some big tax savings.

The IRS calls this a Qualified Charitable Distribution (QCD), and you may want to explore its potential. Some criteria must be met: You need to be at least 70½ years old in the year of the donation, the donation must take the form of a direct transfer of assets from the IRA custodian to the charity, and the charity must be *qualified* in the eyes of the IRS. Any 501(c)(3) non-profit organization meets the IRS qualification, as do houses of worship.¹

The amount you gift can be applied toward your Required Minimum Distribution (RMD) for the year, and you may exclude it from your taxable income. If you are retired and well-to-do, a charitable IRA gift could be a highly tax-efficient move.^{1,2}

Just how much could you save?

That depends on two factors: How much you gift and your federal income tax bracket. As an example, say you are in the 35 percent federal income tax bracket, and you donate \$40,000 from your traditional IRA to a 501(c)(3) non-profit organization. That \$40,000 will be gone from your taxable income, and the donation will cut your federal tax bill for the year by \$14,000 (because 35 percent of \$40,000 is \$14,000). Yes, the savings could be significant.²

You can donate as much as \$100,000 to a qualified charity this way in a single year. That limit is per IRA owner; if you are married, and you and your spouse both have traditional IRAs, you can each donate up to \$100,000.^{1,2}

What about the fine print?

There is plenty of that, and it is all worth reading. You may be curious if you can make a QCD from a SIMPLE or SEP-IRA; the answer is no. You can make a QCD from a Roth IRA, but there is little point in it: Roth IRA withdrawals are commonly tax free.¹

Regarding the asset transfer: The critical detail is that you cannot touch the money. The distribution must be payable directly to the non-profit organization or charity, not to you. (Income tax does not need to be withheld from the distribution because the amount withdrawn will not count as taxable income.) In addition, your tax preparer must identify the distribution as a QCD on your federal tax return. This is crucial and must not be overlooked because the custodian of your IRA will probably report your QCD as a normal IRA distribution.²

If you itemize your deductions, you should know that a charitable IRA gift does not count as a deductible charitable contribution. (That would amount to a double tax break.) Of course, fewer taxpayers have incentive to itemize now because the standard deduction is so large thanks to the Tax Cuts & Jobs Act.^{1,2}

If you want to make a charitable IRA gift, start the process before the year ends.

If you try to make the gift in late December, your IRA custodian might not be able to move fast enough for you, and the asset transfer may occur later than you would like (i.e., after December 31). Talk with a tax or financial professional before the year ends, so you can plan a charitable IRA donation with some time to spare.

Contact us for help in financial planning.

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Citations.

1 - thebalance.com/qualified-charitable-distributions-3192883 [1/15/18]

2 - marketwatch.com/story/how-retirees-can-save-on-charitable-donations-under-the-new-tax-bill-2018-03-02 [3/2/18]