

Qualified Charitable Distributions

If you 70-1/2 or older, you may be able to reduce your income taxes by making a Qualified Charitable Distribution (QCDs) from your IRA account in fulfilling your 2019 RRUUC pledge. In IRS speak, a QCD is “an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70² or over that is paid directly from the IRA to a qualified charity.”

Here’s how QCDs work. Once you reach 70-1/2, you are required to take a minimum amount out of a traditional IRA every year. This amount is called the “Required Minimum Distribution” (RMD). The RMD must be reported as income on your annual federal income tax return. Normally, this means you pay income tax on your RMD. QCDs may enable you to eliminate or reduce the tax.

To initiate a QCD, instruct your IRA custodian to make a donation (the QCD) from your IRA to a qualified charity. Alternatively, if you have IRA “check writing” capability, you can write a check directly to the charity yourself. The QCD will count toward your RMD but will not be included in your taxable income. IRA custodians are aware of these requirements and will be happy to send you the paperwork for ordering QCDs. You may not make more than \$100,000 in QCDs per year.

You cannot make a QCD with money from your personal bank account. However, if your IRA account includes check-writing privileges, you can make QCD by writing a check on your IRA account payable to a qualified charity.

Using QCDs to satisfy RMD requirements lowers your tax by reducing your taxable income dollar for dollar. The same cannot always be said for the itemized deduction you could claim if you made a charitable contribution using non-IRA money.

In some situations, an ordinary charitable deduction will not reduce your tax bill at all. The new tax law, effective January 1, 2018, increased the standard deduction, and limited itemized deductions for state and local taxes (including real estate taxes) to \$10,000. As a result, only about 10% of taxpayers are expected to itemize their deductions in 2019. If you are among the 90% who claim the standard deduction, an itemized deduction for charitable donations will not reduce your taxes. QCDs, in comparison, can reduce your taxes even if you take the standard deduction.

IMPORTANT: QCDs are not right for everyone. Before making a QCD, please seek guidance from your tax and financial advisor. This memorandum is not meant to be tax advice. Our goal is to alert RRUUC’s members to a potential tax-efficient way to support worthy causes.

More information is available on the IRS’s FAQ webpage on IRA distributions:

www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-distributions-withdrawals