True Vine Investments

# Understanding Qualified Charitable Distributions

*[Note: This Letter is an educational publication designed to provide a general background for understanding Qualified Charitable Distributions (QCD). It is not a substitute for professional tax advice. Readers considering a QCD are encouraged to consult with a qualified financial advisor or tax professional. This Letter references parameters for 2017. If you are reading this after 2017, then new parameters may apply. You can check the True Vine Letter IRA archives for more recent updates or visit the Internal Revenue Services (IRS) website at irs.gov. IRS Publication 590-B (Distributions from Individual Retirement Arrangements) covers IRA distributions and is usually updated on an annual basis. The IRS Tax Map for IRAs is also a helpful resource.]*

A Qualified Charitable Distribution (QCD) is a distribution paid directly from an Individual Retirement Account (IRA) to a charity that is not taxable to the individual. A QCD represents a potential tax saving opportunity for an older individual taking a Required Minimum Distribution (RMD) from an IRA who regularly gives to charity.

Upon reaching age 70 1/2, individuals with a SEP, SIMPLE, or Traditional IRA are required to start taking an annual distribution from their account (referred to as Required Minimum Distributions or RMDs). In most cases, the IRA was funded with deductible contributions so the RMD will be fully taxable. However, the individual can instead contribute the RMD amount (or more) to a charity and thus avoid having to pay income tax on the distribution. This strategy is better than taking a regular IRA distribution and then claiming a charitable deduction because it reduces the adjusted gross income (AGI) of the individual (or married couple filing jointly) on their tax return, which may also qualify them for additional tax breaks.

Here are the key requirements necessary for a QCD:

- $100,000 limit per individual; a husband and wife can each make a QCD up to $100,000, however, separate payments would have to be made (no gift splitting).
- The QCD can only be made after the individual reaches age 70 1/2.
- Upon making the QCD to the charity, the individual needs to obtain documentation from the charity verifying that they received the contribution (record keeping requirement).

- SEP or SIMPLE IRAs where the individual is still receiving contributions from an employer do not qualify.
- The distribution must be transferred directly from the IRA to the charity. *If the distribution is sent to the individual first, with the intention that they will give it to the charity, then the attempted QCD is not valid and the entire amount is taxable* (although the individual could deduct it as a charitable contribution).
- The receiving charity must be qualified by the IRS to receive tax-deductible charitable contributions.

## A Good Candidate for a QCD

A good candidate for a QCD is an individual (or married couple) who (1) must take an RMD(s), (2) gives to charity, and (3) is not able to itemize deductions on their tax return.

For example, John & Mary are both 72 years old, retired, have large Traditional (or Rollover) IRAs, and give $5,000 per year to their local church and Samaritans Purse. Because their home is paid for and they have minimal medical expenses, they claim the standard deduction instead of itemizing their deductions, which means the $5,000 of charitable contributions does not get utilized as a deduction on their tax return. However, after reading the True Vine Letter, John learns about the QCD. Instead of contributing to their local church and Samaritans Purse out of pocket, they make the same $5,000 worth of contributions directly from their Traditional IRAs as QCDs, which are also enough to satisfy their RMDs. This strategy reduces their taxable income by $5,000 and saves them $1,250 in taxes (25% tax bracket). If they wanted to, they could then increase their giving by 25% without altering their standard of living.

The Qualified Charitable Distribution presents a unique tax saving strategy that a great deal of retired, charitably-inclined Americans can take advantage of.

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