HOW TO GIVE AND RECEIVE CHARITABLE CONTRIBUTIONS

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Most people are aware that charitable contributions to qualified recipients are tax-deductible, provided they are made by December 31 of the tax year for which you are filing. It's a great benefit for people who feel strongly about supporting various causes and organizations, and it makes for a great year-end tax-saving strategy. Rather than donating cash, some people donate appreciated securities, which can allow them to avoid capital gains tax.

What many people don't realize, however, is that they can also use charitable contributions strategically in other financially beneficial ways, all while supporting worthwhile groups and programs. This is true now more than ever thanks to the Qualified Charitable Distributions law (QCD), which was made permanent in 2016.

For example, one of the most important areas of retirement planning involves having a sound strategy in place for satisfying your Required Minimum Distributions (RMDs). One benefit of the QCD law is that it provides a great option to cost-effectively satisfy your RMDs if you are charity-minded or have a particular organization you regularly support. But there are other potential benefits as well. That means benefits for you in addition to the obvious good your money does for your favorite charity!

How it Works

In basic terms, a QCD allows you to transfer a gift of up to $100,000 directly to a qualified charity from an Individual Retirement Account (IRA) without counting it toward your Adjusted Gross Income (AGI) or incurring a tax. The key word there is "directly." Money transferred from an IRA account to the IRA owner and then gifted does not qualify. By the same token, you cannot use the QCD as a way to reimburse yourself for a charitable gift you've already made; the distribution must be a direct transfer from your IRA account to the charity.

In addition to the tax savings, the QCD can count toward, or be used to, fully satisfy your RMDs for the year in which the donation is made. That's a great advantage if you are a charity-minded IRA owner who doesn't need any part of your RMD for personal income (which you shouldn't if your retirement asset allocation is right) or if you don't have it earmarked for some other purpose.

The SECURE Act 2.0

As you may know, in late 2022 Congress passed the SECURE (Setting Every Community Up for Retirement Enhancement) Act, which — among other things — eliminated the age limit for traditional IRA contributions and increased the age at which IRA owners must begin taking RMDs from 72 to 73. However, the law did not change the age at which you are eligible to use QCDs as a tax savings strategy; it remains 70½. In other words, if you turn 70½ this year, you can do a QCD, but it won't count toward your RMD since those don't begin now until you are 73. The QCD will still not appear in your AGI if you aren't making deductible contributions to the IRA—and it could work to your advantage by lowering the amount of your IRA balance by the time you reach 73 and your RMDs kick in.

Roth IRA owners are also allowed to use the QCD Rule, although they will not see any benefit from doing so since their distributions are already tax-free.

The Benefits

Before the QCD law, your best option for making a charitable donation from your IRA was to take the distribution personally (in which case it did have to be included in your AGI), donate the full amount, and then claim an itemized deduction for the donation to try to offset taxes on the additional income. None of that is necessary with a QCD, however, since you no longer need to report the distribution as part of your AGI. In addition to being more efficient, keeping the additional income off your adjusted gross income can provide several indirect tax benefits.
For example:

- An increase in the AGI deduction limitation for charitable gifts of cash (from 60% to 100%) for itemizers, with a five-year carryover, is one of the benefits for charitable givers brought about by the Pandemic Relief Bill in 2020.
- A 3.8% Medicare tax on investment income for couples with a modified AGI over $250,000 (over $200,000 for singles) can be avoided using the QCD strategy.
- Since taxes on your Social Security benefits are also driven by your modified AGI, a lower AGI works toward keeping more of your SS benefits tax-free — another good reason to take advantage of QCDs.
- Your Miscellaneous Itemized Deductions may also be better maximized by taking advantage of QCDs, thereby keeping the IRA distribution out of your AGI. This may also be true of your de- ductions for medical expenses.

The Guidelines

Can anyone take advantage of the QCD law to donate to any cause or charity? The answer is yes provided the donor and the charity meet the following criteria:

- The IRA account holder must be age 70½ or older as of the date of the distribution. Again, while 73 is the new age at which taxpayers must begin taking their RMDs thanks to the SECURE Act, the age at which you can take advantage of the QCD law remains unchanged.
- The recipient must be a public charity, not a private (grant-making) foundation, a donor-advised fund, or a supporting organization as specified under IRS Section 509(a)(3).
- The charity that receives the donation must provide acknowledgment of the contribution for the donor to obtain the tax benefits of the QCD.
- The QCD must be made from an IRA or individual retirement annuity and can't be distributed from a simplified employee pension, a simple retirement account, or an inherited IRA.

Some Specifics

So, how do you go about making a QCD? You start by making sure you meet all the criteria above. Then, you contact the charity to which you would like to donate to determine specifically how and to whom your gift check should be made out. Then, you provide that information to your IRA trustee and instruct him or her to make a transfer from the IRA directly to the charity in the desired amount. Odds are the trustee or custodian will already have forms and protocols in place to make a QCD transfer. The most important guidelines are that the transfer is made directly from your IRA to the charity and that the check is in the proper name of the recipient. It's also important to remember to obtain an official letter of acknowledgment of your QCD from the charity. There is one more important thing to remember about taking advantage of QCDs.

Don't Try This at Home!

As with any significant transaction or strategy involving your retirement assets, it is always best to work with a qualified financial advisor to help ensure that the strategy is managed properly and efficiently and that it is in your best interest financially. As great as they can be for the right person, QCDs are not for everyone, and, depending on your situation, there may be better ways to help satisfy and minimize taxation on your RMDs. Many factors need to be weighed and considered beyond those discussed in this report, the purpose of which is to provide a high-level overview of QCDs.

Learn More

To learn more, set up a meeting with a qualified financial advisor — ideally, one who specializes in working with investors at or near retirement age and in strategies geared toward asset preservation and generating income!

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