The Season of Giving – Qualified Charitable Distributions

Qualified Charitable Distributions

Qualified Charitable Distributions (QCD) allow individuals 70 ½ or older to donate funds to a charity of their choosing directly from their IRA. This strategy can be used in place of, or to reduce, a client's Required Minimum Distribution (RMD) for any given tax year. This direct "distribution" to a charity would result in less "earned" income realized by the client, and potentially help them avoid being pushed into a higher tax bracket or triggering higher taxes on their Social Security income.

Understanding IRAs past client's age 72: The RMD

Clients with IRAs are required, the year they turn 72, to take a RMD by the IRS. The distribution amount is determined by the IRS Uniform Life Table and must be taken by April 1st the year FOLLOWING the clients 72nd birthday, and then by December 31st of each calendar year thereafter. These distributions are taxed as earned income to the client whether they need the money or not!

What if I don't need the money?

If a client doesn't need the income generated from their RMD they can choose to donate that money directly to a charity via a Qualified Charitable Distribution (QCD) and not pay taxes on that distribution. Instead of donating money that a client has presumably been taxed on (from savings they've earned or a pension for example) they can distribute money directly from their IRA to the qualified charitable organization of their choice (QCDs can NOT be made to Donor Advised Funds or Private Foundations and the client should check to ensure an organization is qualified).

The QCD can also reduce the amount in a client's IRA going forward, which in turn may reduce future RMD amounts the client must take.

Are there tax limitations?

A donor can certainly make a QCD that exceeds their annual RMD amount, but that extra distribution CAN NOT be carried over to meet required distributions in future years (unlike giving to a Donor Advised Fund or gifting appreciated securities). There is a maximum annual QCD amount of $100,000 from the client's IRA(s) that can be spread among various charities of their choice. Also, donors cannot receive any sort of benefit from their QCD(s) such as using them to buy charity auction items or purchasing tickets of any sort. Clients should note that state tax rules may vary and should consult a tax advisor to understand any impact on state tax liabilities.

Every client's situation is different; when does this make sense?

A QCD may be a suitable solution for clients who:

- Don't need the funds and may increase their tax liabilities if they take the income from their RMD
- Would like to reduce their IRA balance to lower future RMDs
- Do not have a Donor Advised Fund or would prefer to donate straight from their IRA

This may not be right for everyone!

While a QCD may be a good strategy for some, it may not be best for everyone. If a client has holdings with significant gains in taxable accounts, gifting these highly appreciated holdings may make more sense and provide a greater tax benefit. Also, if a client wishes to make a larger up-front donation and carry forward potential tax benefits and the ability to give in future years, a Donor Advised Fund contribution may make more sense. We would welcome the opportunity to work with a client's tax advisor to see what may work best.

Passive Capital Management is here to help!

The advisors at PCM are well versed in the rules surrounding QCDs and other charitable giving options. We can talk through options and work with clients through the "mechanics" of effecting a QCD or any other type of giving. If you'd like to speak with one of our advisors, please don't hesitate to contact us.

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