DOWLING & YAHNKE
WEALTH ADVISORS

IRA QUALIFIED CHARITABLE DISTRIBUTIONS

A tax-advantaged way for traditional IRA (IRA) owners older than 70 ½ to support their favorite charities is to make **Qualified Charitable Distributions (QCDs)**. By making direct gifts to qualified charities from an IRA, the taxpayer benefits because the donation is excluded when determining Adjusted Gross Income (AGI). AGI is an important amount used in various tax calculations, so reducing AGI by making IRA QCDs can produce tax saving opportunities.

WHO QUALIFIES FOR QUALIFIED CHARITABLE DISTRIBUTIONS?

Charitably inclined IRA owners over 70 ½. The QCD provisions apply only to IRAs. Other retirement accounts, such as 401(k)s, are not eligible.

WHAT ARE THE REQUIREMENTS?

1. QCDs cannot exceed $100,000 per year per taxpayer.
2. Distributions must be made from the IRA custodian directly to the charity (not to the account owner). In practice, the custodian generally issues a check payable to the charitable organization.
3. The charity receiving the donation must provide a contribution acknowledgment to the donor. Failure to obtain the acknowledgment may disqualify the QCD.

IMPORTANT CONSIDERATIONS

The $100,000 annual limit is applied on a per-taxpayer basis for married couples, as long as each taxpayer's QCDs come from his or her respective IRA. Funds that have been distributed from the IRA to the IRA owner and then contributed to charity do not qualify. Individuals who contribute to IRAs after age 70 ½ may offset future QCDs by the amount of their contributions. *Taxpayers who do not itemize deductions under the recently passed Tax Cuts and Jobs Act (TCJA) may especially benefit by making QCDs, as they would not otherwise receive any marginal tax benefit from their charitable contributions. Potential benefits of investment and charitable giving strategies should be evaluated in consultation with your tax and/or financial advisor.*

EXAMPLE

John (75 years old) and Mary (70 years old) each have IRAs worth $500,000. Since John is over 72, he takes required minimum distributions (RMDs) from his IRA. John's RMD for this year is $18,000.

John and Mary are on the cusp of the 32% tax bracket due to their business and investment income. They donate $10,000 per year to their favorite charity. John is concerned that his RMD may move them into a higher income tax bracket. Mary is concerned that they will not receive any marginal tax savings from their charitable gift under the new tax laws. They do not plan to itemize deductions, as they have no mortgage, are in good health, and their combined state income tax/property tax deduction is capped at $10,000.

By making a QCD, John can donate $10,000 to charity from his IRA while removing that amount from taxable income.

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