

Estate Planning Essentials: Year End Charitable Giving Technique – IRA Qualified Charitable Distributions

The changes enacted under the Tax Cuts and Jobs Act of 2017 have made qualified charitable distributions (QCD) from individual retirement accounts (IRAs) particularly attractive to taxpayers.

A QCD is a direct transfer from an IRA to an eligible charity. IRA owners must be at least age 70 ½ to make a QCD. Even if they do not want or need the money, IRA owners must begin taking required minimum distributions (RMDs) from their IRAs when they reach age 70 ½.

QCDs are attractive because they count towards the IRA owner's RMD for the year.

In general, charitable contributions may or may not result in a tax benefit to the donor, and donors must itemize their deductions in order to receive a tax benefit from their charitable contributions. However, with QCDs, an IRA owner benefits from making a charitable contribution that bypasses his or her taxable income altogether. An eligible IRA owner may avoid paying income tax on up to \$100,000 per year of QCDs whether he itemizes or claims the standard deduction.

In order to illustrate the income tax benefits of QCDs, consider the following:

Mr. and Mrs. Smith are married and file a joint tax return. In 2019, the Smiths received \$60,000 of combined Social Security, \$5,000 of qualified dividends, and have \$40,000 of RMDs. The Smiths typically give \$10,000 per year to their church. In 2019, the Smiths make their \$10,000 charitable gift as a QCD to their church and pay \$3,000 in property taxes on their home. By making a QCD to their church, the Smiths save \$2,220 in 2019 income taxes as indicated below.

2019	No QCD With QDC	
Qualified Dividends	\$5,000	\$5,000
Taxable Social Security*	\$32,350	\$23,850
Taxable IRA Distributions	\$40,000	\$30,000
Adjusted Gross Income	\$77,350	\$58,850

Itemized Deductions:

Property Taxes	\$3,000	\$3,000
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2019	No QCD With QDC
Charitable Deduction	\$10,000 \$0.00
Total Itemized Deductions	\$13,000 \$3,000
<i>Standard Deduction:</i>	
Normal Standard Deduction	\$24,400 \$24,400
Additional Standard Deduction (Both Over 65)	\$2,600 \$2,600
Total Standard Deduction	\$27,000 \$27,000
Greater of Itemized Deductions or Standard Deduction	\$27,000 \$27,000
Taxable Income	\$50,350 \$31,850
Income Tax**	\$5,054 \$2,834
Income Tax Savings with QCD	\$2,220

This example shows an income tax savings of over \$2,000 after utilizing the QCD method for making a charitable contribution.

If you have questions about your charitable giving plans for the end of the year or for 2020, please don't hesitate to contact us. Our tax team, including attorneys and CPAs, work with clients to maximize their tax savings and coordinate their giving plans according to their estate planning goals.

*Calculated in accordance with rules enacted under the Omnibus Budget Reconciliation Act of 1993.

**Calculated using current income tax tables.