Qualified Charitable Distribution:
A Look at a New Way of Charitable Giving for Those 72 (or 70 ½ before December 31, 2019) or Older with an IRA

Beginning in 2016, there was a new option for IRA owners or beneficiaries that are 72 years or older (or 70½ before 12/31/2019), which requires them to take a Required Minimum Distribution (RMD) from their IRA. The new change – a Qualified Charitable Distribution (QCD) – permits IRA owners and beneficiaries to make charitable distribution to their favorite charities and not have to pay income tax on the RMD income on their federal income tax return. This also causes the amount not to be deducted as a charitable contribution on Schedule A – Itemized Deductions, and IRA owners may distribute up to $100,000 tax-free from their IRAs each year.

Since the standard deductions will be doubled from 2018 through 2025, many IRA owners over 72 will no longer be able to itemize their deductions. The QCD – Qualified Charitable Distribution may be the new way for those who want to continue making charitable donations to keep the tax benefits of doing so.

SAMPLE LETTER ACKNOWLEDGEMENT FOR CONTRIBUTION FROM IRA REQUIRED MINIMUM DISTRIBUTION

ORGANIZATION LETTERHEAD

Date

Prefix First Last
StreetAddress
City, State, Zip

RE: Qualified Charitable Distribution from IRA Account

Dear Prefix Last,

Thank you for your recent contribution of **$AMOUNT,** received on **DATE** from your Individual Retirement Account. We are writing to acknowledge that we received your contribution directly from your plan trustee/administrator, **ADMINISTRATOR,** and that it is your intention for your contribution to be a Qualified Charitable Distribution (QCD) from your IRA under section 408(d)(8) of the Internal Revenue Code. As such, this contribution would not qualify for a charitable tax deduction. You may want to consult your tax advisor with any questions about the tax treatment of this transfer.

In that connection, we warrant to you that our organization is qualified under section 170(b)(1)(A) of the Internal Revenue Code and that your contribution was not transferred to either a donor-advised fund or a supporting organization as described in section 509(a)(3). As you requested, this contribution was designated to **FUNDNAME.**

We also warrant that no goods or services of any value were or will be transferred to you in connection with this contribution. Please retain this letter with your important tax documents and provide a copy to your tax advisor.

Sincerely,

SignatureName
Title

MILINOVICH & CO., INC.

REGISTERED INVESTMENT ADVISOR
101 N. WOODLAND AVENUE
WAYNESBURG, PA 15370
724-852-1500

THOMAS G. MILINOVICH, CPA, CFP®
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Dear :

Beginning in 2016 there is a new option for IRA owners or beneficiaries that are over 72 years old (or were 70 ½ before December 31,2019) and required to take an RMD (required minimum distribution) distribution from their IRA. The new change is called a QCD, or, Qualified Charitable Distribution. The new change permits IRA owners and beneficiaries to make charitable distribution to their favorite charities and not have to pay income tax on the RMD income on their federal income tax return. This also causes the amount not to be deducted as a charitable contribution on Schedule A – Itemized Deductions.

This is advantageous to many individuals for various reasons:

1) If you don't itemize, this permits you to get a tax reduction for the RMD that goes directly to the charity and still claim your full standard deduction.

2) If you are a high income individual with more than $250,000 of AGI, you would get the full tax reduction at your highest tax bracket on the RMD plus, you could save 3.8% medicare tax on interest, dividends, capital gains or rents & royalties.

Please call if you would be interested in discussing this new procedure with us to learn how it may benefit you. It will now be one of the options when we send your annual RMD letter in November 2018.

Sincerely,

Thomas G. Milinovich, CPA, CFP®
President
Financial Services Director

Michael A. Milinovich, RICP®
Vice President
Financial Advisor

Examples

We wanted to do actual examples to show the full benefit of using this new Qualified Charitable Distribution (QCD) mentioned in the attached letter.

Taxpayers who don't itemize:

Based upon situations for both single and married individuals who are over 72 with a RMD (Required Minimum Distribution) from an IRA and those who do not itemize because their itemized deductions are less than $13,600 if single and $26,600 if married still benefited more than one might think.

In fact, it is these two groups who tend to benefit more than originally thought. If they are at a 12% regular income tax rate, but if part of their taxable social security is reduced because of this new QCD, the effective benefit is now more than their base income tax rate and could be as much as a 22% actual tax reduction. This is because they still keep their full standard deduction, but reduce their AGI (Adjusted Gross Income) which now has also reduced their taxable social security.

Taxpayers at higher tax rates:

Taxpayers at higher tax rates could also benefit because of two additional tax rules in addition to their own base tax rate of 22% or 24%.

An individual at a regular tax rate of 35% could increase their tax reduction by using this new qualified charitable distribution to as much as 38.8%. This is for those individuals who have investment or royalty income subject to the 3.8% medicare tax.

Individuals with the maximum regular tax rate of 37.0% could see a maximum tax reduction of 40.8% for the same above stated reasons. This could also help more people since the state and real estate tax deduction is now limited to $10,000 beginning in 2018, so less people will now be able to itemize their deductions that in the past.

If you are interested, please contact us to calculate the total tax reduction if you chose to increase your contributions to charitable non-profit organizations by using this new QCD that has now been made permanent by Congress since 2015 but changed since the new tax law passed in 2017.

SUMMARY OF QUALIFIED CHARITABLE DISTRIBUTION (QCD)

Made permanent by Protecting Americans from Tax Hikes Act of 2015 (12/18/2015)

Available to only IRA owners or beneficiaries that are actually 72 and required to take an RMD (Required Minimum Distribution)

Permits those eligible that are 72 or older to make a charitable distribution to their favorite charities and not pay income tax on the RMD income on their federal income tax returns.

QCDs are limited to $100,000 each year per tax payer. Therefore, a married couple both having their own IRAs could each give up to $100,000 per tax year.

QCD must be made payable to the charity. Check can be mailed to donor to distribute to charity.

Custodians who permit QCDs will have special form for donor to name charities to receive QCDs. Separate forms are usually needed for each charitable organization.

Because QDCs are available only to IRA owners or beneficiaries they are not available for RMDs of any other qualified plans such as 401(k), 403(b) and 457. SEP and SIMPLE IRAs are also not eligible for QCD if they receive a tax-year contribution for the year in which the QCD is being considered.

QCDs qualify only if otherwise 100% tax deductible under charitable deduction rules of IRC Code 170. Owner can receive no value in return from charitable organization (i.e., fund raising dinner or other benefits would not qualify).

QCDs must be made only to charities described IRC Section 170(b)(1)(A) and they are not available for donor advised funds, supporting organization or charitable remainder trusts.

Main tax benefit beginning in 2018, taxpayer reduces AGI and taxable income by the QCD and still keeps full benefit of increased standard deduction of $13,600 for a single individual over 65 and $26,600 for a married couple both over 65.

You should tell your tax preparer your have done this and give him/her copies of QCD forms from custodian to make sure you receive tax benefit of the QCD. So tax preparer does not confuse this with regular charitable donations because you may not be able to itemize with new increased standard deduction limits beginning for tax year 2018.

QUALIFIED CHARITABLE DISTRIBUTION (QCD)

Major Tax Benefits

Because the QCD reduces AGI (Adjusted Gross Income) as well as taxable income, there are various tax benefits derived from any reduction in AGI itself, by using the QCD.

1) Taxpayers who cannot itemize get tax benefit by having AGI reduced and keeping full standard deduction. Taxable income decreased by amount of QCD.

Beginning in 2018 tax year, fewer taxpayers will be able to itemize due to increased standard deductions $13,600 for single taxpayers and $26,600 for MFJ. Fewer taxpayers will itemize due to the maximum $10,000 limit for state & local income taxes as well as real estate taxes. Miscellaneous deductions were also eliminated that include union dues, Form 2106 employee expenses, tax preparation fees and investment advisory fees.

2) Taxpayers on social security bubble (those whose social security is not fully taxable) will receive additional tax benefit of having taxable social security reduced thus receiving an additional tax reduction by using QCD.

3) Taxpayers with AGI over $200,000 if single or $250,000 filing married filing jointly who also have passive income such as interest, dividends, rents or royalties will get additional 3.8% tax reduction by reducing additional medicare tax on passive income at those AGI levels, or a $380 benefit per $10,000 of QCD.

4) Taxpayers with deductible medical expenses will receive as additional increase in deductible medical expenses by any reduction in AGI. There will be $750 benefit for each $10,000 of QCD claimed.

5) Medicare premiums for single individuals or both husband and wife could be reduced by using QCD if AGI for single taxpayer is over $85,000 or $170,000 if MFJ and it reduces AGI to where it is decreased into lower level of medicare premium penalty.

6) Taxpayers with additional medicare tax or deductible medical expenses could benefit from QCD even if they itemized using charitable donations, in the past. Even though taxable income will not decrease, but since AGI will be decreased there may be additional tax savings. Run figures both ways to see if there is additional tax benefits of QCD vs listing charitable donations.

QUALIFIED CHARITABLE DISTRIBUTION (QCD)

Effects for Charitable Non-Profit Organizations

The charities will have to modify their normal charitable donation letter, so tax preparers know that donation was done as a QCD vs by check or stock donation.

Charities can educate their passionate donor base 72 and older (or 70½ before December 31, 2019 to this new method of giving.

First wave of baby boomers reached 70 ½ in 2016. This will only increase every year for the next 10 to 15 years as an even increasing number of donors who could use this new method. Once they learn of this new method, they will continue to utilize it for years to come.

For churches this would be easier method to give vs monthly or weekly checks or new internet donations.