

Saving Taxes on Charitable Donations With a Qualified Charitable Distribution

In a recent conversation Rossmoor Scholarship Foundation (RSF) trustee and Rossmoor resident Steve Batill explained why he prefers to use the Required Minimum Distribution (RMD) from his Individual Retirement Account (IRA) to make charitable donations. "I like to use a Qualified Charitable Distribution (QCD) to make donations because it is a very tax efficient way to support the Rossmoor Scholarship Foundation and other charities I support. I don't itemize deductions, but by using the QCD I reduce the tax liability from my Required Minimum Distribution. Anyone with an IRA should look into this."

The QCD "provides a tax-free option to direct funds from a rollover IRA or 401K to an approved philanthropic organization," notes Rossmoor resident and former RSF President Keith Alley. "These funds are distributed directly off the annual RMD, thus reducing the overall tax burden. It also eases the distribution process by redirecting dollars that you have never seen."

For holders of traditional IRAs who are in their RMD period (currently starting at age 73) the income taxes on these unneeded RMDs can seem to be an onerous burden, especially if the RMD withdrawals are not needed for current living expenses, and the taxpayer would prefer to leave them tax deferred until a later date when they are needed.

Fortunately, there exists a way to reduce the taxes on RMDs for the charitably-minded—the QCD. A QCD lets taxpayers designate a portion of their RMDs as a deductible contribution (up to \$105,000 per year) to a qualified charity, a 501(c)3, regardless of whether they itemize deductions, or use the standard deduction. In effect, Uncle Sam covers part of the taxpayer's charitable donation equal to the taxpayer's marginal tax rate multiplied by the QCD amount. Also, since a QCD reduces a taxpayer's Adjusted Gross Income, it can be used to minimize a taxpayer's Medicare Parts B and D annual premiums' Income Related Modified Annual Adjustments (IRMAAs), as well as Medicare Investment Tax surcharges. The QCD is separate from itemized charitable deductions and QCDs can be taken in addition to itemized deductions. They do not replace itemized deductions.

All this may seem somewhat arcane and complicated, but most financial advisors and financial vendors are prepared to help with the details of this useful charitable giving and tax planning tool.

For first time use of a QCD charity-minded taxpayers should work with their financial planners or ask for help from a retirement specialist, who can cut a QCD donation check payable any chosen charity, e.g, the Rossmoor Scholarship Foundation (taxpayer ID number 94-6126368) that taxpayers would send with the coupon below. All major financial vendors should be prepared to help, and all 501(c)3 charities should be willing to accept a QCD donation. The Rossmoor Scholarship Foundation is more than willing to accept any QCD and is grateful for any donation. QCD checks can be mailed to the Rossmoor Scholarship Foundation with the attached coupon.

Submitted by: Bill Welch, RSF Trustee