Key Private Bank

Qualified Charitable Distributions: A new strategic approach

What is a Qualified Charitable Distribution, and how does it work?

A Qualified Charitable Distribution (QCD) is a transfer of funds from an Individual Retirement Account (IRA), made payable to a charitable organization. Individuals must be 70½ or older in order to be eligible to make a QCD, and they are considered tax-free distributions.

Taxpayers can exclude up to $100,000 of QCDs from their gross income each year. If individuals are filing a joint return, spouses (if 70½ or older) can exclude an additional $100,000 of QCDs as well. QCDs also count toward satisfying required minimum distributions (RMDs) associated with IRAs, SEP IRAs, SIMPLE IRAs or inherited IRAs upon reaching age 70½.[1]

Please note restrictions:

You do not get to separately deduct QCDs as a charitable contribution on your federal income tax return because that would be double-dipping. Also, distributions that you actually receive from your IRA (including RMDs) and that you subsequently transfer to a charity do not qualify as QCDs.

Clients who may benefit by making a QCD:

- Those who have pledges to charities (excluding private foundations and donor-advised funds).
- Those for whom the RMD may put them in a higher tax bracket.
- Those who have an RMD, already make charitable donations, and want to reduce their federal taxable income.
- Those who will use the standard deduction instead of itemizing deductions.
- Those who reside in a state without a charitable income tax deduction for state income tax purposes.

Using a QCD strategy with the 2017 tax laws changes

In calculating your federal individual income taxes, you can claim the larger of the standard deduction or the total of all your itemized deductions. Under the recently passed 2017 Tax Cuts and Jobs Act, the standard deduction amounts for single and married taxpayers have essentially doubled in value.

The changes mean that you are less likely to itemize deductions on your tax return. A QCD may keep some taxpayer's incomes low enough so they are less likely to be affected by unfavorable adjusted gross income tax provisions. A QCD also may reduce a high-income taxpayer's obligation to pay a greater monthly Medicare premium.

> The standard deduction increased to $24,000 for a married couple, which will require giving far more to make itemizing deductions practical. One recommended strategy would be to front-load donations over multiple years into a single tax year.
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> CNBC, February 2018[2]

Why are QCDs important?

Without this special rule, taking a distribution from an IRA and donating the proceeds to a charity would be a bit more cumbersome and possibly more expensive. Rather than taking a deduction you may exclude the income from your taxes entirely. QCDs avoid this by providing an exclusion from income for the amount paid directly from your IRA to the charity. Ultimately, this will not require inclusion of the IRA distribution in gross income calculations, nor would it require a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

Advisor recommendation: Start planning for a QCD today

Individuals over age 70½ should consider taking advantage of a QCD. Just remember, for individual filers or those filing jointly who have already taken distributions that count towards their annual RMD, there is no way to retroactively convert these into a QCD later.

Strategize early in the year if you plan to use the QCD. If you are not quite eligible yet, position yourself to take advantage when you are eligible by evaluating how much you save in tax-deferred investments and how you spend your savings to support your retirement lifestyle. By using or preparing to use a QCD, you can meet your RMD requirements, satisfy your charitable intentions and save money on taxes now and into the future.

For more information, please contact your Key Private Bank Advisor.

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[1]*Internal Revenue Service (2017, August 17). IRA FAQs—Distributions (Withdrawals). Retrieved from www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-distributions-withdrawals*

[2]*Osterland, A. (2018, February 20). 5 ways to hone retirement plans under new tax regime. Retrieved from www.cnbc.com/2018/02/20/5-ways-to-hone-retirement-plans-under-new-tax-regime.html*