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Tax Reform Alert: Qualified Charitable Distribution

The Tax Cuts and Jobs Act made significant changes to individual and corporate taxation by generally lowering tax rates and widening tax brackets. In addition, certain deductions were curtailed including personal itemized deductions either through their direct elimination or indirectly by increasing the standard deduction. As a result, we encourage you to consider a previously available tax strategy, the Qualified Charitable Distribution (QCD) if you are over 70.5 and required to take distributions from certain retirement plans.

Standard Deduction Increased

The standard deduction for a married taxpayer was increased to $24,000 ($26,600 if both husband and wife are over the age of 65). As a result, far fewer taxpayers will be itemizing. For individuals with little to no mortgage interest, the threshold will be more difficult to meet. Therefore, depending on other itemized deductions, principally state and local taxes (now capped at $10,000 for 2018) or charitable donations, there may be no tax benefit to making a regular cash donation to a charity.

Qualified Charitable Distribution (QCD)

A taxpayer who is over age 70.5 and required to take money from certain retirement accounts can directly donate all or a portion of the “required minimum distribution” (RMD) to a qualified charity. As a result of this strategy, the RMD is not considered taxable income and the donation is not reported as a charitable contribution on Sch A of the personal tax return.

The QCD allows the taxpayer to effectively deduct the donation by not reporting the RMD as income. This technique has the added benefit of keeping Adjusted Gross Income (AGI) low which factors in to the Medicare premium surcharge which otherwise can increase your Part B and Part D monthly premiums. Also, you may pay less income tax on your social security income by using this strategy.

Types of Retirement Plans Eligible

Traditional IRAs, rollover IRAs, inherited IRAs, SEP, and SIMPLE plans are eligible for the QCD. Note: SEP and SIMPLE plans need to be inactive (i.e. the taxpayer is not actively contributing to the plan). 401(k) plans are not eligible.

Limitations

The maximum amount that can qualify for a QCD is $100,000 per taxpayer (which can be more than the taxpayer's RMD for the year). The money must come out of your IRA by December 31st. The funds need to be directly donated to the charity; not deposited to your bank account and then a separate check written.

Charity Eligibility

The charity must be a 501(c)(3) organization. It cannot be a private foundation, supporting organization, or a donor-advised fund.

Summary

For those taxpayers over age 70.5 who will not be itemizing in 2018 because of the higher standard deduction threshold, the qualified charitable distribution strategy will likely reduce your tax liability. Please contact our office for more information.