A Charitable Idea and Tax Savings

Like many other VWA members, I turned 70 ½ in 2018 and was faced with my first annual mandatory Individual Retirement Account (IRA) distribution. And as 2018 draws to a close, I first must determine if I will itemize or not when deciding on charitable donations in 2018.

Fortunately, there is tax break available to those of us that are subject to the IRA Required Minimum Distribution (RMD); it's called the Qualified Charitable Distribution or QCD. The QCD allows those of us that are 70 ½ or older in 2018 to transfer up to $100,000 each year directly to charities from an IRA. If you have not met your RMD for the year, making a Qualified Charitable Distribution will count toward your RMD. The only catch is that a QCD must be sent directly to the charity from your financial institution. Most firms are glad to help you with a QCD transaction. But, be aware that for 2018, you will need to do this soon since your QCD must be converted to cash and the charity must receive the QCD before the end of the year. Also, the QCD cannot be directed toward a donor-advised fund within the charity.

So, what are the decisions you need to make and what do you need to know to make them?

- Do you wish to take your RMD directly from your IRA? If so, it is treated as taxable income, raising your Adjusted Gross Income (AGI). You are still able to make a charitable contribution directly to your charity and this contribution may be tax deductible. However, you have probably paid a portion of your RMD (depending on your tax rate) to the IRS and perhaps reduced the amount you are able to contribute to your charity.
- Do you wish to make a QCD directly from your financial institution to your charity? This reduces your AGI and helps lowers the tax rate on your taxable income. It is no longer a "tax deductible" contribution but your charity has received the full benefit and the RMD has not raised your AGI.

Whether you itemize or use the standard deduction, your QCD will be omitted from your AGI, thereby lowering your taxable income. This may allow you to take better advantage of tax breaks, such as medical deductions, or by lowering your AGI, the tax on Social Security benefits may be reduced. Whether you itemize or use the standard deduction, an RMD will be considered income and taxed accordingly. But if you later itemize and make charitable contributions, they may be tax deductible.

So, in summary, I made a QCD to the Vermont Woodlands Association for 2018. I had to answer the question of whether I wanted my RMD to all go as a QCD directly to VWA, lower my AGI, and not have the deduction; or did I want to take my RMD, increase my AGI and tax obligation, make a donation to VWA, and take an itemized deduction. Assuming a $1,000 RMD, a QCD would allow the entire $1,000 to go to VWA. If the RMD was paid directly to me and then I later donated the after tax balance to VWA or other charity, the contribution would potentially be reduced to something less than $1,000, or ($1,000 – ($1,000 X tax rate)).

As always, before deciding on a QCD, check with your tax attorney or accountant.

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