Important Announcement Regarding Charitable Giving from your IRA

In December 2017, congress passed the Tax Cuts and Jobs Act (TCJA), making several significant changes to individual income taxes.

One major change is the ability to deduct charitable contributions. The TCJA increased the standard deduction and limited the state tax deduction, effectively eliminating the tax benefit received from charitable contributions for many taxpayers.

If you are over 70 ½ years of age, making a Qualified Charitable Distribution (QCD) directly from your IRA can allow you to receive the full tax benefit of your charitable contribution, while maintaining the benefit received from the increased standard deduction—a win-win!

Please see the attached article which further explains the requirements and benefits of charitable giving from your IRA. Making a Qualified Charitable Distribution is easy, just contact your IRA custodian to initiate the donation.

If you haven't taken your required minimum distribution for 2019 and want to take advantage of the Qualified Charitable Distribution opportunity, contact your IRA custodian today. If you've already taken your 2019 RMD, keep this opportunity in mind for 2020.

Please give us a call at 620-221-2663, if you'd like to know how a Qualified Charitable Distribution will impact your tax planning,

Compliments of:

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MY ART IS HELPING CLIENTS PLAN FOR A COMFORTABLE RETIREMENT.

PHILANTHROPY AND YOUR IRA

MAKING A DIRECT TRANSFER FROM AN IRA TO A CHARITY, A LONG-TIME VALUABLE PLANNING STRATEGY, HAS BECOME EVEN MORE VALUABLE FOLLOWING THE ENACTMENT OF THE 2017 TAX CUTS AND JOBS ACT. This is because the higher standard deduction coupled with the $10,000 cap on the deduction for state and local taxes effectively means there will no longer be a tax benefit for charitable giving for many taxpayers, as they will not have enough itemized deductions to get over the standard deduction threshold. A direct transfer from an IRA to a charity provides a tax benefit in addition to the standard deduction. Furthermore, the transfer satisfies the required minimum distribution (RMD) rules that apply to those who are over age 70½.

SEVEN REQUIREMENTS

1. Only those over age 70½ are permitted to use this strategy. Watch for this tax trap in the year when a donor reaches the magic age of 70. All IRA distributions made during the year one turns 70½ count toward the RMD, but only those made after the half birthday may be rolled tax free to a charity.

2. IRAs only. Distributions from 401(k) plans, 403(b) plans, pension plans, or profit sharing plans are not eligible for charitable IRA rollover treatment. For these plans, the donor must first roll the assets into a new IRA.

3. Direct transfers only. The check from the IRA must be made out to the charity. A check made out to the IRA owner which is endorsed over to the charity will not be eligible for deduction.

4. Public charities and private operating foundations must be the recipient. Ineligible recipients include private grant-making foundations (non-operating foundations), donor-advised funds, and supporting organizations.

5. The payment would have qualified for a full charitable deduction. In other words, no quid pro quo; the donor must receive nothing in return. The qualified charitable distribution cannot be used to purchase a charitable gift annuity, for example, or even to pay for tickets to a fundraising dinner.

6. Distributions are limited to $100,000 per year and must be otherwise fully taxable. Nondeductible IRA contributions are not taxable when distributed, and thus they are not eligible for treatment as qualified charitable distributions.

7. Documentation required. The charity must supply a contemporaneous written acknowledgement of the gift and certify the donor did not receive any financial benefit from making the gift.

Failure to meet any requirement results in the entire distribution being taxable to the donor.

BENEFITS

The biggest winners in using the charitable IRA rollover are those seniors who are using the standard deduction. They would otherwise get no tax benefit from their charitable gifts.

Those who pay more tax as their adjusted gross income rises also are better off with this strategy. This includes people subject to the 3.8% tax on net investment income, those whose income is high enough to cause their Social Security benefits to be taxed, and those who are paying higher Medicare part B premiums because of their high income. Donors who live in states which do not allow a charitable income tax deduction generally will achieve a tax benefit from the direct transfer to charity, as their adjusted gross income for state tax purposes will not be increased. The 60% of Adjusted Gross Income (AGI) limit on the charitable deduction does not apply to the charitable IRA rollover.

Finally, the heirs will be winners as well. They will prefer to receive assets which receive a tax-free step-up in basis to receiving an IRA whose distributions will be fully taxable as ordinary income.

It is up to the taxpayer to report qualified charitable distributions. The taxpayer reports all of the IRA distributions on line 4a of Form 1040 and reports only the taxable portion on Line 4b.