

A GUIDE TO Charitable Giving Through Individual Retirement Accounts

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More than 8,000 billions of dollars—that is about how much Americans have in their individual retirement accounts, known as IRAs.

Since you are reading this guide, you likely have an IRA of your own. Perhaps you created it many years ago, or more recently to receive a rollover from a 401(k), 403(b), or other work-related retirement account. These assets grow tax-deferred until withdrawal.

You may be using your IRA for current income needs or waiting to take withdrawals until sometime in the future. Once you reach age 70 ½, you must begin taking a required minimum distribution—RMD—each year. And this may create an interesting problem—you may not need the income. In fact, it could place you in a higher tax bracket.

Are there options for IRA assets and income you do not need?

Yes, and with some options you can help the ministries you love and likely improve your bottom line at tax time.

The Qualified Charitable Distribution

If you have reached the age of 70 ½, you know that IRS rules mandate that you annually receive a required minimum distribution or RMD. This amount is calculated by government tables based upon your life expectancy and is reported to you as ordinary income.

However, if you do not need the RMD for yourself, regulations allow you to have this amount sent directly to a qualified charity (a 501(c)3). This direct-to-charity distribution is called a Qualified Charitable Distribution (QCD) and will not be taxable to you as income. This gives you the benefit of a charitable tax savings even if you do not itemize when filing your taxes.

To make a QCD, contact your IRA fund administrator and request that the distribution be made directly to the ministry you choose. With the QCD you can avoid taxes on transfers of up to \$100,000 per year, and it can be used to help meet your RMD.

A qualified charitable deduction allows you to support one or more ministries, is not included in your taxable income, and is not subject to the deduction limitations on other charitable gifts you make.

Can I Make a Qualified Charitable Distribution?

Most traditional, inherited, and rollover IRAs can be used to make a Qualified Charitable Distribution. Your IRA custodian should be able to confirm the eligibility of your IRA.

What are the QCD Requirements?

- You must be 70 ½ or older.
- The maximum amount that you can gift and qualify for a QCD is \$100,000 (if you are married, your spouse can also make a QCD up to \$100,000), per year.
- Funds must be payable directly from your IRA account to a qualified charity (donor advised funds and private foundations are not qualified charities for this purpose).
- If you wish for your gift to satisfy your required minimum distribution for the year, you must notify your account custodian and the gift must be made prior to the distribution deadline (generally December 31).

What are the Advantages of a Qualified Charitable Distribution?

When you take an income distribution from your retirement plan, you receive it as taxable income. This income may push you into a higher tax bracket or may impact your eligibility for certain tax credits and deductions, including Social Security and Medicare.

If you make a gift with a QCD from your IRA, you can fulfill your charitable giving goals and reduce the amount of income subject to tax. The cash you would have used for charitable gifts is available for other purposes.

By making a Qualified Charitable Distribution from your IRA, you receive a tax benefit equal to an itemized charitable deduction, with simpler tax filing. This is especially helpful if you do not have itemized deductions greater than the standard deductions of \$12,000 per individual and \$24,000 for joint filers.

Naming a Charitable Beneficiary of Your IRA

When tax-deferred retirement assets are distributed to your estate or named personal beneficiaries at your death, they will be taxed as ordinary income. Yet, as with many taxes, you have options.

One option is to designate a ministry as the beneficiary of your IRA. You can take withdrawals from your IRA during your lifetime and then distribute the remaining assets via beneficiary arrangement at your death. Since the ministry is not subject to tax, no income tax will be paid on the remaining IRA assets.

Giving Your IRA Away Twice

If you wish to provide income from your IRA for your family, your IRA can be transferred to a charitable agreement as part of your estate plan. After your income desires for your family are achieved, the remainder of the IRA will be distributed to ministry.

Through this special charitable strategy you can give your IRA once to family and then twice to ministry.

A QCD Case Study

Mr. and Mrs. Wilson gave generously to ministry throughout their marriage. Since her husband's passing 3 years ago, Mrs. Wilson has sought to simplify her giving and record keeping.

Upon learning about the Qualified Charitable Distribution, Mrs. Wilson contacted her IRA account manager to direct a portion of her RMD to her favorite ministry. The details for Mrs. Wilson were as follows:

1. Her required minimum distribution this year is \$30,000.
2. Mrs. Wilson has been giving \$24,000 each year in ministry support. She directed her custodian to make that amount payable directly to ministry. This meets her giving desire and satisfies a portion of her required minimum distribution.
3. Only \$6,000 of her required minimum distribution will be distributed outright to Mrs. Wilson this year, reducing her taxable income by \$24,000. In an assumed 30% combined federal and state income tax bracket, the result equals a tax savings of approximately \$7,200.
4. Mrs. Wilson accomplished her charitable desire, reduced her taxable income, and is able to file her taxes simply using the standard deduction.

How to Make a Qualified Charitable Distribution

To take advantage of the Qualified Charitable Distribution from your IRA, it is important to contact your IRA account manager prior to your required minimum distribution deadline. Your account manager will guide you through the process.

Upon completion of the QCD request, your gift will be made directly from your IRA account to your chosen ministry. If your QCD does not fulfill your required minimum distribution for the year, you will receive the remaining distribution from your IRA. Only the amount distributed directly to you will be included in your taxable income for the year. **Note:** If the QCD exceeds your required minimum distribution for this year, any excess cannot be carried over to a future required minimum distribution.

You should receive acknowledgment of the distribution from your custodian, and of the gift from the ministry. Keep these with your other tax records.

What a QCD Means for You

If you are over age 70½, desire to support ministry, and have an IRA, you may be able to achieve excellent results and reward with a QCD. If we can answer any questions or help you plan your gift, please contact us.

We are here to assist you in completing your gift. There is no cost or obligation to you—may we help?

To begin the process, please contact:

Doug Miller

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417.626.1215



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Frequently Asked Questions

Q: If I write a check to charity equal to the amount I received as my required minimum distribution, can I claim it as a Qualified Charitable Distribution?

No. The Qualified Charitable Distribution must be a direct transfer from your account custodian to charity. If you receive the distribution, you must report it as income and then validate your gift to claim an income tax charitable deduction.

Q: If I make a gift to charity from my IRA that is greater than my required minimum distribution this year, can I apply the excess to next year's required minimum distribution?

A: No. All distributions from your IRA must be applied to the current year. Next year's required minimum distribution will be recalculated based upon the account principal.

Q: Can I ask my IRA custodian to issue a check payable to charity but mail it to me?

A: Perhaps. You will need to check the policies and procedures of your custodian, but as long as the check is payable to charity it should be a Qualified Charitable Distribution, even if you receive the check and forward it to the charity personally.

Q: Can I make a Qualified Charitable Distribution to the donor advised fund I have already established, and then make grants to various ministries from my donor advised fund?

A: No. At this time a gift to a donor advised fund does not meet the requirements for a Qualified Charitable Distribution. It must be an outright gift directly to a qualified charity.

Frequently Asked Questions (cont.)

Q: If I request a Qualified Charitable Distribution of a portion of my required minimum distribution, will it be reflected on the Form 1099-R I receive from my IRA custodian?

A: If your account is a non-inherited IRA, your Qualified Charitable Distribution will be reported as a normal distribution. Your charitable portion will be reflected by reducing the taxable amount of the IRA distribution, when you file your tax return. *Please note: You will want to check with your personal tax counsel to make certain that current IRS requirements are met.*

Q: Can an inherited IRA be gifted to a charity?

A: If you are the spouse of the deceased IRA owner or have reached the age of 70 ½, you can make a gift from an inherited IRA just as from a traditional IRA. However, you cannot make a QCD from an employer sponsored plan like a SIMPLE or SEP IRA.

Q: Is a Qualified Charitable Distribution tax deductible?

A: No. However, you do not have to claim the distribution as taxable income. The net result may be the same as if you received a charitable tax deduction.