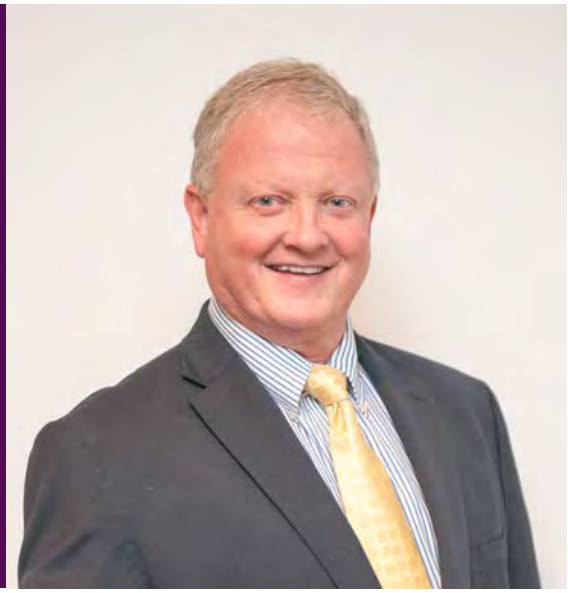
McLean advisorygroup

Better to Give *and* Receive:

Win-Win with Tax-Free Gifting

introduction



As a financial advisor and educator, I am frequently invited to speak at events hosted by charitable, non-profit organizations. I appreciate these opportunities and take advantage of them whenever possible. Often, it is because I feel strongly about the organization's cause and objectives on a personal level, and other times it's because I have clients who feel strongly about a particular organization, and I want to show them my support. I also know that many of my clients express their own support for their favorite causes and organizations through donations, which is why I felt it was important to draft this brief paper about the Qualified Charitable Distributions (QCD) Rule, which was made permanent by Congress in 2016.

As you may know, one of the most important areas of financial planning for retirees involves understanding required minimum distributions (RMDs). One of the great things about the QCD Rule is that it provides a great option for cost-effectively satisfying RMDs if one is charity-minded or have a favorite cause or organization that they regularly support. There are other potential benefits as well – financial benefits to retirees in addition to the obvious good their money does for their favorite charity!

> **"To know even one life has breathed easier because you have lived – that is to have succeeded."**
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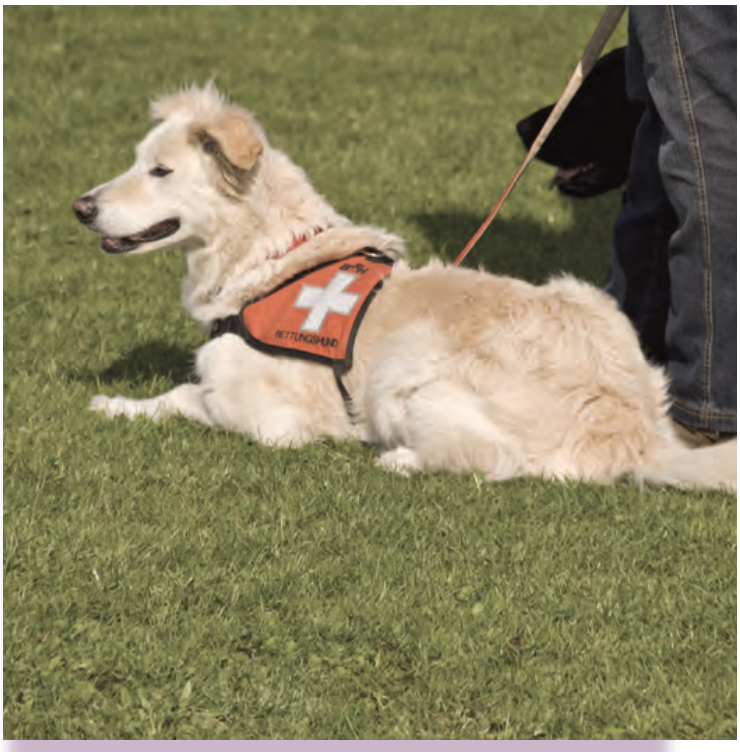
> ***– Ralph Waldo Emerson***



The Secure Act

As you may know, in late 2019 Congress passed the SECURE (Setting Every Community Up for Retirement Enhancement) Act, which – among other things – eliminated the age limit for traditional IRA contributions and increased the age at which IRA owners must begin taking RMDs from 70½ to 72. However, the law did not change the age at which one is eligible to use QCDs as a tax savings strategy; it remains 70½. In other words, if a tax payer turns 70½ this year, they can do a QCD, but it won't count toward their RMD since those don't begin now until they are 72. The QCD will still not show up in AGI if they aren't making deductible contributions to the IRA – and it could work to their advantage by lowering the amount of their IRA balance by the time they reach 72 and their RMDs kick in. Roth IRA owners are also allowed to use the QCD Rule, although they will not see any benefit from doing so as their distributions are already tax-free.

The Benefits

Before the QDC Rule, the only other option for making a charitable donation from one's IRA was to take the distribution personally (in which case it had to be included in their AGI, as noted), donate the full amount, and then claim an itemized deduction for the donation as a way to try to offset taxes on the additional income. None of that is necessary with a QCD, however, since tax payers no longer have to report the distribution as part of their AGI. As a savings strategy, this is much more valuable than taking an itemized deduction, which only lowers taxable income. Since the adjusted gross income figure is used for many tax calculations, having a lower AGI can allow tax payers to stay in a lower tax bracket, reduce or eliminate the taxes on their Social Security or other income, and keep them eligible for deductions and credits they might lose if they had to declare the RMD amount as income.

The Guidelines

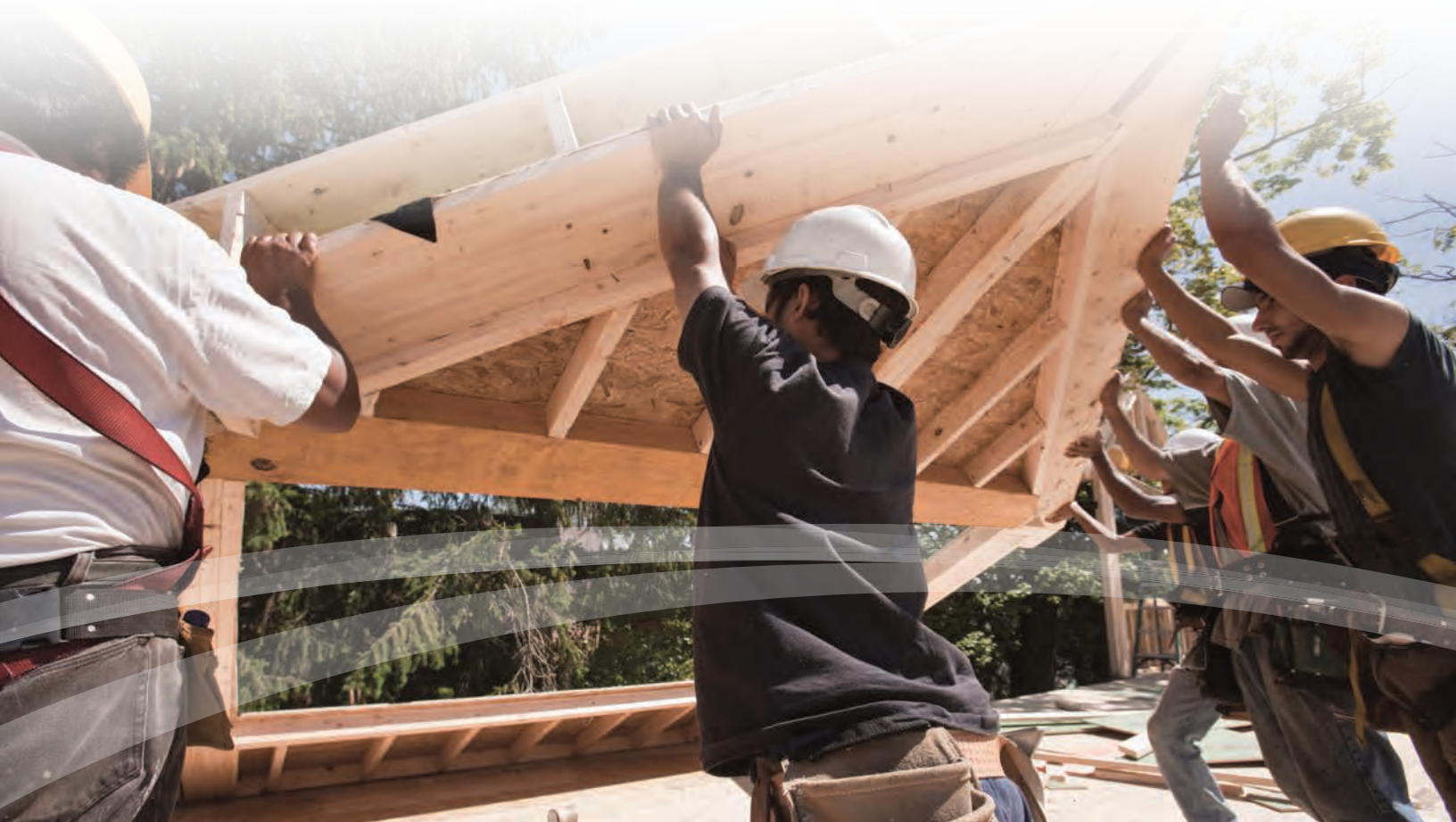
Can anyone take advantage of the QCD Rule to donate to any cause or charity? Well, the answer is "yes" provided the donor and the charity meet the following criteria:

- The IRA account holder must be age 70½ or older as of the date of the distribution
- The recipient must be a public charity, not a private (grant-making) foundation, a donor-advised fund, or a supporting organization, as specified under IRS Section 509(a)(3)
- The charity that receives the donation must provide acknowledgement of the contribution in order for the donor to obtain the tax benefits of the QCD
- The QCD must be made from an IRA or individual retirement annuity, and can't be distributed from a simplified employee pension, a simple retirement account, or an inherited IRA

Some Specifics

So how, exactly does one go about making a QCD? Start by making sure to meet all the criteria above. Then contact the charity to which you'd like to donate to determine specifically how, and to whom, your gift check should be made out. Then, you provide that information to your IRA trustee, and instruct him or her to make a transfer from the IRA directly to the charity in the desired amount. Odds are the trustee or custodian will already have forms and protocols in place to make a QCD transfer. The most important guidelines are that the transfer be made directly from your IRA to the charity, and that the check be in the proper name of the recipient. It's also important to remember to obtain an official letter of acknowledgment of your QCD from the charity!

Having said all that, here is the most important thing to remember about taking advantage of QCDs...



DON'T TRY THIS at home

As with any significant transaction or strategy involving retirement assets, it is always best to work with a qualified financial advisor to ensure that the strategy is managed properly and efficiently – and that it really is in one's best interest financially. As great as they can be for the right person, QCDs are not for everyone, and depending on your situation, there may be better ways to satisfy and minimize taxation on your RMDs. Many factors need to be weighed and considered beyond those discussed in this brief paper, which is intended only to provide a high-level overview of the QCD Rule.

If you'd like to learn more, I urge you to contact and meet with a qualified financial advisor – ideally one who specializes in strategies designed to generate reliable, life-long retirement income, which is the most important priority for investors at or near retirement age!

Scott McLean
McLean Advisory Group

McLean advisorygroup
(609) 489-5200
support@mtagllc.com
www.mtagllc.com