

IRA QUALIFIED CHARITABLE DISTRIBUTIONS

Many seniors will benefit from a tax law recently made permanent by Congress.

What is a Qualified Charitable Distribution (QCD)?

A QCD is a contribution to a charity directly from an IRA account. If a taxpayer is at least age 70 ½ and owns an IRA, they may gain these tax benefits using their Required Minimum Distributions (RMDs). This permanent legislation is a win-win, it will help both reduce one's taxable income and benefit a qualifying charity. Many people over the age of 70 ½ who take RMD's subsequently donate money to charity anyway, and this tax law provides an even greater tax benefit!

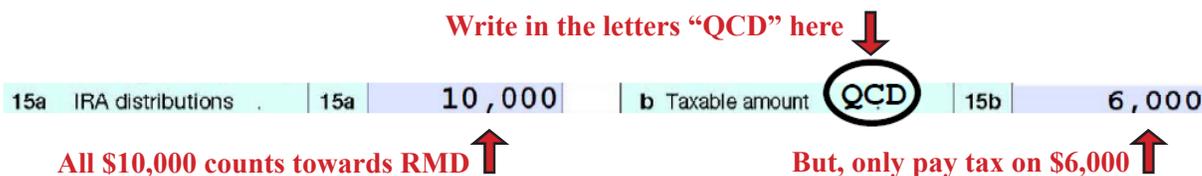
What are the requirements to correctly complete a QCD?

- 1) Taxpayer must be 70 ½ at the time of the distribution.
- 2) Distribution must be from an IRA but not from workplace retirement plans like a 401(k).
- 3) Must be a check payable directly to a charitable organization but not payable to the taxpayer.
- 4) Taxpayer needs to get a charitable receipt like any other charitable donation.
- 5) Distribution can be any amount up to \$100,000 per year per person.

The QCD can satisfy all or a portion of the RMD but is not federally taxable, so there will be no need for federal tax withholding. The QCD can be one-time, or periodically like monthly or yearly.

QCD Example:

Let's suppose that an individual has an RMD of \$10,000 and wants to give \$4,000 this year to their favorite charitable organization. Below, you will see how to correctly input this on line 15 of form 1040.



In this example, all \$10,000 would count towards satisfying the RMD, but taxpayers would only pay income tax on the \$6,000. The \$4,000 would go to the charity and not be subject to income tax. At the 15% income tax bracket, that means a savings of \$600! This might be the only way that a taxpayer who doesn't itemize their deductions can benefit from a charitable contribution. And, if the taxpayer itemizes, in almost all cases a QCD is more beneficial than itemizing and taking the charitable deduction on schedule A. The reason is that other taxes and deductions are based upon income for the year and by using a QCD the income level decreases.

When income is decreased, certain benefits may occur:

- 1) Pay less income tax on Social Security, if it is currently taxable.
- 2) Take the Standard Deduction but still save taxes on the charitable contribution.
- 3) Have a lower hurdle for medical and miscellaneous itemized deductions due to lower income.
- 4) For taxpayers who don't need to file a federal tax return or pay no tax since their income is low enough, using a QCD can help the taxpayer distribute more of their IRA tax-free or perform a tax-free Roth IRA Conversion.

If you have any questions about how to benefit from a QCD, we would be happy to help. Please call us directly at (570) 735-2172 or toll-free (877) 735-2172.

On the pages to follow is a case study illustrating a QCD in action.



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QCD in action: Case study

John & Sally Giftgiver are retired taxpayers aged 73 & 71. John has a pension from his union of \$1,600/mo, and Sally who worked in private industry also has a small pension of \$400/mo from an old employer. John's gross social security benefit is \$1,600/mo, and Sally's \$900/mo. They reinvest the \$6,000/yr in qualified dividends from utility stocks they inherited from each of their parents, and have required minimum distributions totaling \$20,000/yr from their IRAs, which they both rolled over from their workplace retirement plans. Adding all this up, they figure their gross annual income to be \$80,000/yr, and give 1/10 of that to charity every year, equaling \$8,000, writing checks out to these charities during the year. Sally keeps detailed records of their tax-deductible items, such as this charitable giving, but also their medical expenses, counting each and every trip to the doctor, and even the smallest prescription drug copay. John always hates paying taxes on taxes, and likes to get the most he can out of their deductions, so he even counts up their state sales taxes paid during the year to help themselves out. Every year, they show up with pages and pages of notes, and a shoebox full of itemized receipts.

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	0
8a	Taxable interest. Attach Schedule B if required	8a	0	0
b	Tax-exempt interest. Do not include on line 8a	8b	0	0
9a	Ordinary dividends. Attach Schedule B if required	9a	6,000	6,000
b	Qualified dividends	9b	6,000	6,000
10	Taxable refunds, credits, or offsets of state and local income taxes	10	0	0
11	Alimony received	11	0	0
12	Business income or (loss). Attach Schedule C or C-EZ	12	0	0
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	0	0
14	Other gains or (losses). Attach Form 4797	14	0	0
15a	IRA distributions	15a	20,000	20,000
b	Taxable amount	15b	20,000	20,000
16a	Pensions and annuities	16a	24,000	24,000
b	Taxable amount	16b	24,000	24,000
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	0	0
18	Farm income or (loss). Attach Schedule F	18	0	0
19	Unemployment compensation	19	0	0
20a	Social security benefits	20a	30,000	23,850
b	Taxable amount	20b	23,850	23,850
21	Other income. List type and amount	21	0	0
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	73,850	73,850

Form 1040 (2016)	Page 2		
38	Amount from line 37 (adjusted gross income)	38	73,850
39a	Check <input checked="" type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind. Total boxes checked 2 if: <input checked="" type="checkbox"/> Spouse was born before January 2, 1952, <input type="checkbox"/> Blind. 39a	39a	2
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b	39b	
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	15,461
41	Subtract line 40 from line 38	41	58,389
42	Exemptions. If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	8,100
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	50,289
44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	5,716

See the above graphic (upper right) representing their completed Federal 1040 tax return, lines 7-22 and 38-44.

The Giftgiver's did indeed get a benefit for all their giving and good recordkeeping, taking an itemized deduction of \$15,461. To the right see their completed Schedule A.

Medical and Dental Expenses	1	10,000
1	Medical and dental expenses (see instructions)	10,000
2	Enter amount from Form 1040, line 38 2 73,850	73,850
3	Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	5,538
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4,461
Taxes You Paid	5	500
5	State and local (check only one box): a <input type="checkbox"/> Income taxes, or b <input checked="" type="checkbox"/> General sales taxes	500
6	Real estate taxes (see instructions)	2,500
7	Personal property taxes	0
8	Other taxes. List type and amount	0
9	Add lines 5 through 8	3,000

As you can see, their taxable income for the year was \$73,850, and they incurred a total federal tax of \$5,716. Susan, their tax preparer, commended them on how diligent they are, and after double checking the return, she found absolutely no errors, and the return was e-Filed later that day. The Giftgiver's withheld enough for taxes and found that they were getting back a refund, to be direct deposited in their bank account in a couple of weeks. The Giftgiver's happily drove home from their tax appointment, praised each other on their outstanding teamwork for yet another tax season, and treated themselves to a nice dinner out together.

Gifts to Charity	16	8,000
16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions.	8,000
17	Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	0
18	Carryover from prior year	0
19	Add lines 16 through 18	8,000

Total Itemized Deductions	29	15,461
29	Is Form 1040, line 38, over \$155,650? <input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.	15,461
30	If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>	

As retirees, the Giftgiver's have a very typical tax situation, and they and their tax professional think they are doing the absolute best they can.

But, could they do better? Absolutely!

But if so, how? Aren't they already tracking their deductions as best they can? And wasn't their tax return even double-checked for accuracy? Yes, both of those statements are true, and the tax return was completed perfectly! But what if there were a way the Giftgiver's could do less work, and save more in federal income tax, without any additional out-of-pocket cost?

The answer is easy, do a Qualified Charitable Distribution (QCD)!

Here, we show John and Sally with a much easier, and less taxing, tax return. The end result is an **additional \$2,166 in tax savings, without even having to itemize their deductions!** Instead of giving the \$8,000 in charitable giving from their checkbook, the Giftgiver's take \$8,000 of their \$20,000 RMD and send it directly to a charitable organization, performing a QCD (see line 15b on the right).

They don't have to keep any more records than what they already do now, only a charitable donation receipt just like they have in the past. Sure, their IRA distributions they receive themselves to their bank account go down by \$8,000, but they have \$8,000 more dollars they would have written out to charities in their bank account per year, making it a wash! Secondly, because they're showing less taxable IRA distributions, less of their Social Security income is taxable (before, line 20b was over \$23,000, now it's just \$17,050! John loves the fact that he's paying less Tax on Tax, as he always says that "President Roosevelt promised that Social Security benefits would never be taxed!" Well, John's feeling happier now!)



And where did that Schedule A and the shoebox go? Well, finally, as an added benefit, Sally & John can stop painstakingly counting their medical expense deductions and sales taxes paid, because they are now able to take the standard deduction, since it now exceeds their remaining itemized deductions. Now that's something they should really have a celebratory dinner about!!!



SAY GOODBYE TO
Mr Shoebox

Income					
7	Wages, salaries, tips, etc. Attach Form(s) W-2			7	0
8a	Taxable interest. Attach Schedule B if required			8a	0
b	Tax-exempt interest. Do not include on line 8a	8b	0		
9a	Ordinary dividends. Attach Schedule B if required			9a	6,000
b	Qualified dividends	9b	6,000		
10	Taxable refunds, credits, or offsets of state and local income taxes			10	0
11	Alimony received			11	0
12	Business income or (loss). Attach Schedule C or C-EZ			12	0
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>			13	0
14	Other gains or (losses). Attach Form 4797			14	0
15a	IRA distributions	15a	20,000	b Taxable amount	15b 12,000
16a	Pensions and annuities	16a	24,000	b Taxable amount	16b 24,000
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17	0
18	Farm income or (loss). Attach Schedule F			18	0
19	Unemployment compensation			19	0
20a	Social security benefits	20a	30,000	b Taxable amount	20b 17,050
21	Other income. List type and amount			21	0
22	Combine the amounts in the far right column for lines 7 through 21. This is your total income			22	59,050

Form 1040 (2016)					Page 2
38	Amount from line 37 (adjusted gross income)			38	59,050
39a	Check <input checked="" type="checkbox"/> You were born before January 2, 1952, <input type="checkbox"/> Blind, Total boxes checked <input type="checkbox"/> 39a <input type="checkbox"/> 2				
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b <input type="checkbox"/>				
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)			40	15,100
41	Subtract line 40 from line 38			41	43,950
42	Exemptions. If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions			42	8,100
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	35,850
44	Tax (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>			44	3,550

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