



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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The Charitable IRA Transfer: Permanent at Last

In December 2015, President Obama signed into law the "Protecting Americans From Tax Hikes Act of 2015." This new ruling made permanent many tax breaks that had been dubbed "extenders" as taxpayers would have to wait -- typically until the last minute -- for lawmakers to reinstate them for another year. Among the most popular of the bunch is the IRA charitable transfer provision. So if you are age 70½ or older and charitably minded to boot, consider tapping your IRA.

The qualified charitable distribution (QCD), also known as an IRA charitable rollover, allows you to donate up to \$100,000 per year to qualified charities. A QCD can be made tax free, can help minimize your taxable estate, and can help fulfill your philanthropic desires -- all while satisfying your annual required minimum distribution (RMD).

Benefits of a QCD

Without this provision, withdrawals from traditional IRAs and certain Roth IRAs (including those held for less than five years) would be taxed as income, even if they were directed immediately to a charity. While the donor would receive a tax deduction for his or her donation, various other federal and state tax rules would prevent the deduction from fully offsetting this taxable income. As a result, many donors have chosen not to use IRA assets for lifetime gifts. Now, the qualified charitable distribution permanently eliminates this problem. While there is no tax deduction allowed for the donated assets, they don't count as income either.

You may benefit most from implementing the QCD strategy if you:

- Do not need all of the income from your RMD.
- Want to avoid being taxed on your RMDs.
- Have significant assets in your IRA.
- Make charitable gifts, but don't itemize deductions. Generally, only taxpayers who itemize get federal income tax-saving benefits from charitable donations.
- Make a gift that is large, relative to your income. A QCD is not included in taxable income, therefore it does not count against the usual percentage limitations on using charitable deductions. In addition, by lowering your income, a QCD may potentially help you to lower your tax bracket and avoid higher taxes on Social Security benefits or tax surcharges such as the 3.8% net investment income tax.

Limitations of a QCD

There are limitations to making a QCD from your IRA, including the following:

- You must be at least 70½ years of age when the gift is transferred.
- Total gifts cannot exceed \$100,000 per year, per IRA owner or beneficiary. Married taxpayers with separate IRAs can give up to \$200,000 total, but no more than \$100,000 may be distributed from each spouse's IRA.
- Gifts must be made directly from your IRA to a public charity. Private foundations, supporting organizations, and donor-advised funds are not eligible. You also cannot use the distribution to establish a charitable gift annuity or fund a charitable remainder trust.
- You can only make a donation from your traditional or Roth IRA. They cannot come from other employer-sponsored accounts, such as 401(k)s, 403(b)s, SEP-IRAs, or SIMPLE IRAs. You can, however, roll over funds from your 401(k) or 403(b) to an IRA to contribute to a charity.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

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