Tax Efficiency Giving

By Dennis J. Rogers, CPA, CFP®

If you are currently taking required minimum distributions (RMD's) from your Individual Retirement Account and you make significant charitable contributions, you should consider this strategy for lowering your tax burden. The tax law permits "qualifying charitable distributions" from your Individual Retirement Accounts to be excluded from adjusted gross income (AGI). These distributions must fulfill these criteria:

- They must be made directly from the IRA trustee to the charitable organization;
- The IRA owner must have reached age 70½;
- The contribution must be made to a qualifying charitable organization under Sec. 170(b)(1)(A) and not be a private foundation or donor advised fund.

Each person may transfer up to $100,000 annually in this way. This transfer is not included in your adjusted gross income. Of course, it also does not count as a charitable donation on your itemized deductions. However, there are several benefits to having both income and deductions lowered in this way.

There are several items on your tax return which are impacted by a higher AGI. If you are a very heavy charitable giver, you may be limited in how much you can give due to the 50% of AGI limit on deductible contributions. You also may be subject to the itemized deduction and / or personal exemption phase outs and lose some of the benefits that way. Your deductible medical expenses are limited based on a percentage of AGI.

You may be better off with the standard deduction as opposed to itemizing at all. This strategy will allow you to get the benefit of the contributions in addition to the standard deduction. The amount of your Social Security income subject to tax may be impacted by the lowering of your AGI as well.

Let's take an example of a couple ages 73 and 71 who have a total income from pensions, IRA distributions, and social security of $80,000 who give $20,000 to charity from their income. They have typical deductions and their income includes $20,000 in withdrawals from their IRA's during the year. By transferring the $20,000 directly from the IRA's to the charity instead of taking the income and paying it themselves, they would lower their taxable income by $26,700. This is a result of the use of the standard deduction and the lowering of the amount of social security which is taxed. This would result in a tax savings for the year of $3,751. For a much higher income taxpayer the impact can be considerably greater.

The process for executing this strategy is quite simple. Your custodian or financial advisor should be able to walk you through it.

Dennis J. Rogers, CPA, CFP® is a Registered Principal offering securities and advisory services through United Planners Financial Services. Member FINRA/SIPC. Rogers & Kirby and United Planners Financial Services are not affiliated. He is a partner in a financial advisory practice in Phoenix that focuses on helping clients make smart decisions about their money based on their personal core values. He can be reached at dennis@rogerskirby.com or 602-748-1900.