

March 4, 2019

2018 Tax Filing Pertaining to Charitable Gifts from your IRA in 2018.

It was brought to our attention this week that financial institutions are not reporting gifts clients made from their IRA to charity.

Once you are 70 ½ years of age and older, you need to take a Required Minimum Distribution (RMD) from your IRA every year. In addition, one can give IRA distributions (which can satisfy the RMD amount) direct to charity and not have the income be taxed.

This is important is because in December 2017, the U.S. Congress passed a new tax bill which increased the standard deduction. For married couples filing jointly who are both age 65 or older, the standard deduction in 2018 was \$26,500, an increase from the 2017 standard deduction amount of \$15,200.

One of the most commonly used itemized deductions for years has been charitable contributions. Due to the increase in standard deductions, it is estimated that only 1 out of 6 Americans will itemize, and therefore get a deduction for their charitable contributions.

Many of our clients in 2018 gave gifts to charity direct from their IRAs. This strategy was used to minimize taxes, because if you did this, you gave your IRA distribution direct to charity, didn't pay tax on that distribution, and still utilized the standard deduction. With this strategy, one could say they 'deducted their charity' because they didn't pay tax on the distribution by giving it right to charity, and still had the same standard deduction.

We have learned that financial institutions did NOT distinguish what amount went directly to you as a client or directly to charity. **If you gave money to charity direct from your IRA, please call us and we will provide you the amount that went to charity so that you provide that information to your tax professional to get proper credit for your gift.**

For example, if one withdrew \$10,000 from their IRA, and gave \$5000 direct to charity, your 1099 shows you withdrew \$10,000. Without informing your tax professional of this \$5000 gift, your accountant will document that you had \$10,000 of IRA income, when in fact, it is \$5000. Without communication to your accountant, you will pay more tax than necessary.

It seems the financial institutions are putting the burden of differentiating your distributions on you as a client. The 1099 provided to you shows the amount paid direct to you and does not include the amount given to charity.

JD Kreps Financial Group has built a procedure to better assist you with this in early 2020, by 'tagging' your account if you give a QCD in 2019, so that next year we can notify you of this more accurately.