

QCD

... For most taxpayers over 70, is a better way to donate to charity

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With the passage of the new tax law at the end of 2017, my first thought when I sat down to write this article was to focus on a discussion of all the major changes in the new law and the strategies seniors can use as they seek to

minimize their own tax bill. As I started my research I was reminded of a pledge I made to myself after attending a professional conference about 15 years ago. I would always come back from the conference with 15 or 20 great ideas for our firm and usually would look back a year later having only partially implementing a couple of them. I now force myself to narrow the list of 15 or 20 great ideas to just one or two that I bring back to the office to be fully implemented during the following year.

It is in that spirit that I have selected just one strategy for charitable giving that I think will be most beneficial to both the readers of Maine Senior's Magazine and your favorite charities.

THE BIG CHANGE - MAJOR INCREASE IN THE STANDARD DEDUCTION

Under the new 2018 tax law, the standard deduction for married couples age 65 and older is \$26,500 and the deduction for state and local income taxes is limited to \$10,000 for those who itemize their deductions. Therefore, many charitable contributions will provide limited or no tax savings to the donor because their standard deduction will exceed their total itemized deductions.

If you are over 70 ½ and have an IRA or retirement plan, here's how you can still help your favorite charity and get the full income tax deduction for yourself....

QCD - QUALIFIED CHARITABLE DISTRIBUTION

IRA'S and retirement plans which have pre-tax dollars in them...almost all do... require you to begin minimum distributions (RMD's) which are based on life expectancy, when you turn 70 ½. Those distributions grow each year as a percentage of the account value and are taxed as ordinary income. Using a QCD, the IRA owner can directly transfer all or a portion of the required distribution (up to a maximum of \$100,000 per year) to a charity and that amount is not considered taxable to the IRA owner.



Let's look at an example to show the benefits of the **QCD**:

Randy and Helen are both retired professors who want to participate in their college alma maters' capital campaigns. They are each required to withdraw \$12,000 from their IRA's in 2018. Their total state and local income taxes are \$8,000. With the standard deduction now set at \$26,500 they would not realize the full benefit of the charitable contribution if they receive the required distributions as cash and then write checks out to their colleges. However, if they arrange for a direct transfer of their RMD to the college's investment accounts, they would still get to take advantage of the full standard deduction of \$26,500 AND not include the \$24,000 in IRA distributions in their taxable income.

If you are set up to receive your RMD automatically this year and you plan to make a sizable donation to charity, you may want to turn off the automatic payment and consult with your financial adviser or IRA custodian to learn more about transferring some or all of your required distribution to the charity. Currently your IRA custodian is not required to specifically identify the QCD on your 1009-R form, so you will want to make sure to inform your tax preparer that you performed a QCD.

The QCD is a powerful tax strategy if you are over the age of 70, have charitable intent, and have an IRA. The value of the IRA to both your family and your charity can be further leveraged by naming the charity the beneficiary of the IRA's for the amount you want them to receive at your death instead of any of your other assets. Your family and your charity will both benefit from using this strategy because unlike your children who would owe income taxes if named beneficiary of the IRA, the charity will pay no income taxes. If you leave non-retirement assets to your children, they will receive a step up in cost basis on any gains on those assets... a win/win for your family and your favorite charity! Please consult with your financial adviser or your CPA about the potential benefits of using the QCD - **Qualified Charitable Distribution** to benefit both you and your favorite charities in 2018.

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