RMDs and Charitable Giving: Good Deeds and Tax Savings

Individuals taking RMDs can get a tax break for their charitable donations without itemizing deductions.

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As a Senior Financial Advisor with HBKS® Wealth Advisors, Brittany Taylor guides her clients in achieving their overall financial goals, by establishing and overseeing a plan of action that is specific to their unique economic and life situation.

Ms. Taylor started with the firm in 2001 and has helped many families and individuals through major life changing events, including the loss or disability of a loved one. Although these are unhappy occasions, Ms. Taylor stresses the importance of proper planning both preceding and following these inevitable events, in order for her clients' wishes to be carried out. She is passionate about providing her clients with the highest level of coordinated service in a detailed and personal manner.

Ms. Taylor earned her Bachelor of Arts Degree in Business Management and Finance from Mercyhurst University.

Part of the new Tax Cuts and Jobs Act includes a significant increase in the standard deduction. As a result, many tax filers will no longer benefit from itemizing; therefore, losing their deductions for charitable donations. A Qualified Charitable Distribution (QCD) is a tax strategy that can deliver a tax break without itemizing.

A QCD allows someone who has reached the RMD age of 70.5 to transfer tax-free up to $100,000 per year of their IRA RMD directly to a qualified charity. QCDs were available before the 2018 tax year, but with the increased standard deduction it is likely they will be used more commonly.

How Does it Work?

Any amount processed as a QCD counts toward your RMD, thereby reducing the taxable amount of your IRA distribution. This lowers both your adjusted gross income and taxable income, resulting in a lower overall tax liability. For example, if you typically give $10,000 per year to charity and you are in the new 24 percent tax bracket, contributing through a QCDs could save you $2,400 in federal taxes. That is $2,400 a year in your spending budget you would not otherwise have.

How Do You Implement It?

Plan your charitable contributions at the beginning of the year and discuss it with your financial advisor before you request your RMD. You must account for your planned QCDs before you take your full distribution because you cannot return the money to your IRA to take advantage of this tax strategy. If you take your RMD as systematic distributions talk to your financial advisor early in the year; your distributions can be adjusted to account for ongoing charitable contributions. Presently, you may be giving to some charities weekly or monthly, you may want to consider giving them a lump sum through a QCD. You will get the tax benefit and the charity will get your gift in a single payment.

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How Do You Get the Tax Break?

Currently, IRA custodians are not required to specifically identify QCDs on their annual 1099-R tax forms. Consequently, the responsibility falls on you, the IRA owner, to inform your CPA of the details of your QCDs. If you fail to inform your CPA, the transaction could be reported as fully taxable, negating the benefit of your planning.

This information is not intended to substitute personalized tax or financial advice. We recommend consulting your financial advisor and CPA if you decide to capitalize on this tax saving opportunity.

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