MEMORANDUM

To: **Resurrection Parish**

From: **Gerard Papetti**

Date: **February 8, 2021**

Subject: **Gifts from your IRA**

If you've been a good saver and you want to share the love with a charity, you can gift directly from your IRA. These gifts, called ***Qualified Charitable Distributions*** (QCDs), can be made when the IRA owner reaches age 70 ½.

Note that if a parishioner wishes to make a QCD from their IRA, they cannot do so until the day they actually turn age 70½.

QCDs can only be done from IRA accounts, whether traditional or Roth, and even inherited IRAs are included. They cannot be done from 401(k) or 403(b) plans, but can be made from SIMPLE IRAs or SEP IRAs to which no contributions have been made during the calendar year.

Up to $100,000 of your IRA can be contributed annually directly to a charity as a QCD. The $100,000 is never recognized as income nor would you receive a charitable deduction.

A QCD can also help you reduce your contribution to Medicare Part B premiums as well as possibly reduce taxes due to not phasing out on certain deductions when your income is too high.

"A tax trap"

This next part gets into the weeds, but it's important so you don't make a costly mistake. The tax treatment of a QCD is different from first distributing money from the IRA and then writing a check to the charity from your bank account.

If you take your RMD and deposit it into your bank account and then make a charitable donation from your bank account (rather than as a QCD), you will increase your Adjusted Gross Income (AGI) which would most likely result in higher taxes being paid.

Under the current tax law many more taxpayers - and not just wealthy ones - will probably wind up paying more tax if they do not make the donation through a QCD as more taxpayers will wind up taking the standard deduction rather than their itemized deductions even if they make charitable donations. If a taxpayer age 70 ½ or older does not do a QCD and instead takes a distribution from their IRA and then makes the charitable donation but does not have enough other deductions to itemize, they are receiving no benefit from the charitable donation and are needlessly paying tax.

How it works

For example:

Jane and George, both age 73, prior to 2018 were able to itemize their deductions as their deduction for state income tax and real estate taxes was not limited to $10,000 like it is under the current tax law. However, under current tax law their itemized deduction total does not exceed their Standard Deduction ($26,100 for 2020) and will not be able to itemize. They still wish to donate $2,000 to a charity. If they distribute $2,000 from their IRA, deposit it into their checking account and write a check to the charity for $2,000 they report on their 2020 tax return $2,000 of IRA taxable income, but because they are unable to itemize this year, they cannot deduct the $2,000 on Schedule A. Thus, they paid tax on the $2,000 IRA distribution when they did not have to.

Instead, they could have made a QCD in the amount of $2,000 directly from their IRA to the charity. Come tax time they would not show the $2,000 of taxable IRA income on their tax return, and of course, would not take the deduction either.

This tax trap may affect many unaware donors.

Footnotes:

Note that in 2019 the SECURE Act changed the age for RMDs from 70 ½ to age 72 for those taxpayers who did not attain the age of 70 ½ by 12/31/2019 however a QCD only requires the taxpayer to be age 70 ½ or older.