

# How to Donate Your IRA Required Minimum Distribution to Charity

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After years of contributing to tax-deferred 401(k)s and IRAs, income tax is due on that money when you take withdrawals in retirement. Annual withdrawals from traditional retirement accounts are required after age 70 1/2, and the penalty for skipping a required minimum distribution is 50 percent of the amount that should have been withdrawn. However, if you are in the fortunate position of not needing your distribution for living expenses and are charitably inclined, you can avoid income tax on your required withdrawal by donating your money directly to a qualifying charity.

Here's how a qualified charitable distribution from your IRA can be used to help others and reduce your tax bill.

- Meet the QCD requirements.
- Satisfy required minimum distributions.
- Calculate your QCD tax break.
- Set up a direct transfer to a charity.
- Select a qualifying charity.

Read on to find out more about how to set up an IRA qualified charitable distribution.

**[See: [How to Pay Less Tax on Retirement Account Withdrawals.](#)]**

## Meet the QCD Requirements

IRA owners must be age 70 1/2 or older to make a tax-free charitable contribution. Those who meet the age requirement can transfer up to \$100,000 per year directly from an IRA to an eligible charity without paying income tax on the transaction. If you file a joint tax return, your spouse can also make a charitable contribution of up to \$100,000, meaning couples can exclude up to \$200,000 of their retirement savings from income tax if they donate it to charity. If you donate more than the maximum allowable amount, it is considered income and could be subject to income tax. Qualified charitable contributions must be made by December 31 each year in order to exclude that amount from taxable income.

Charitable contributions can only be made from IRAs, not 401(k)s or similar types of retirement accounts. So you might need to roll funds over from a 401(k) to an IRA if you want to make tax-free charitable contributions part of your retirement plan. You don't

need to itemize your taxes in order to make an IRA charitable distribution. However, you cannot additionally claim a charitable contribution tax deduction on a charitable distribution from your IRA. "You are not getting taxed on this money, so you don't get to count it as a charitable deduction in addition," says Jill Schlesinger, a certified financial planner and Senior CFP Board Ambassador . Remember to request an acknowledgment of the donation for tax purposes if you don't receive it automatically.

### **Satisfy Required Minimum Distributions**

An IRA charitable contribution also satisfies the annual minimum distribution requirement for your IRA. "You can mitigate the required minimum distribution if you make a qualified charitable donation from the IRA," says Steven Podnos, a certified financial planner for Wealth Care in Cocoa Beach, Florida.

You can donate part of your required distribution to charity and withdraw the rest of it as retirement income as long as you meet the minimum distribution requirement by the end of the calendar year. "Oftentimes they don't donate the full distribution, but break it up and send it to multiple destinations," says Michelle McKinnon, a certified financial planner and senior wealth advisor at Payne Capital Management in New York City. "A lot of people already do give, so why not give from your IRA with funds you have to take out anyway?"

[**See:** [10 Tax Breaks for People Over 50.](#)]

### **Calculate Your QCD Tax Break**

A \$100,000 charitable contribution from your IRA could save you tens of thousands of dollars in taxes, depending on your tax rate. But you don't have to make a huge donation to benefit from this tax break. For a retiree in the 24 percent tax bracket, an IRA charitable contribution of \$5,000 could reduce your income tax bill by \$1,200. Even a \$1,000 donation would save you \$240 in taxes. The benefits of making a charitable contribution from your IRA are even bigger for those in higher tax brackets. "Essentially what happens is you are not receiving this distribution, you are not getting taxed on the distribution, it goes straight to the charity," Schlesinger says . "Most people actually need the money that's coming out of their retirement account, but if you are lucky enough that you don't need it, one of the cool things that you can do is satisfy your required minimum distribution by taking this money and directing it directly to the charity."

### **Set Up a Direct Transfer to a Charity**

Funds must be transferred directly from the IRA to an eligible charity by the IRA trustee in order to qualify for the tax break. If you withdraw the money from your IRA and later donate it, it won't qualify as a tax-free qualified charitable distribution. "You have to make the distribution check payable to the charity directly," Schlesinger says. "If it is somehow sent to you by mistake, that is not considered a qualified charitable distribution."

[**See:** [7 New Taxes Retirees Face.](#)]

## Select a Qualifying Charity

A charity must be a 501(c)(3) organization in order to receive tax-free IRA charitable contributions. Charities that do not qualify include private foundations and donor-advised funds. You can distribute your required minimum distribution to multiple charities in the same year. "A lot of my clients are in the Florida area and were affected by the hurricane, so they are giving to help others around the area," McKinnon says. "They use this as their annual church giving, or sometimes they will break it up and send some to a homeless shelter and some to the ASPCA."

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