

J. F. Williams Co.

INC.

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A Powerful Charitable Device

As a part of the year end legislation in 2015, Congress made permanent a special rule on IRA distributions that can be quite useful and beneficial to those IRA holders that are charitably inclined. Called the Qualifying Charitable Distribution (QCD) rule, the provision allows special tax benefits for an IRA owner who makes a distribution of IRA funds to a qualifying charity. The rule had been in place for several years before, but was of quite limited utility since the QCD was always in the "extenders" legislation that only were extended after the end of the year. That left the use of the provision in a state of being quite uncertain from a planning perspective. Again, now the QCD provision is permanent.

Conditions and limitations for QCDs - There are a number of conditions and limitations that apply to IRA distributions for purposes of QCD.

- A QCD may not be made from a SEP, a SIMPLE, a 401(k) or a 403(b) company retirement plan.
- QCDs are limited to \$100,000 per year per IRA owner.
- The recipient must be a qualifying charity and the charity must provide the same contribution acknowledgment required to claim a charitable deduction.
- The account owner must be OVER 70½ to make a QCD. This is different than the 70½ rule for Required Minimum Distributions (RMD)s. You can take your first RMD any time in the year you turn 70½. You must wait until you actually turn 70½ to make your QCD.
- The first money out of the IRA during the year is treated as the RMD (whether or not it goes to charity). If that first money is not the QCD, the benefit of reducing the RMD will be offset and diminished by that amount. In the 70½ year, any amount taken during the year but before the 70½ date will chew up the amount of RMD that can be offset with QCD.

- Donor Advised Funds, Private Foundations and Supporting Organizations are excluded from being the charitable recipient of a QCD.
- QCD may be made from an Individual Retirement Account or Individual Retirement Annuity or an Inherited IRA. (For a QCD from an Inherited IRA, the owner (inheritor) still must be 70½ for the charitable distribution to qualify.)
- Although QCDs can be made from Roth IRAs, we can see no tax-motivated reason to make a QCD from a Roth IRA (we can see good reasons not to).
- The distribution must go directly to the charity and not through the hands of the IRA account owner (although the check, made out directly to the charity and only the charity, can be delivered to the owner for further delivery to the charity). If the owner is a payee on the check, the distribution will be treated as a normal distribution from the IRA and will not receive QCD treatment.

Benefits of QCDs

- QCDs are not included in Adjusted Gross Income (AGI) for Income Tax purposes. This may benefit the IRA owner in several ways.
 - Lower AGI may reduce the tax rate on other income, including social security.
 - Lower AGI may reduce other triggers such as phaseouts and exemptions.
 - Lower AGI may reduce Medicare premiums.
 - AGI limitations on charitable contributions can limit or defer the benefit of charitable contributions of normal (non QCD) IRA distribution proceeds.
- Charitable intentions are fulfilled with money that has never been taxed.
- QCDs count towards fulfillment of the RMD.
- A special rule exists for accounts with after-tax contributions where the taxable portion is

applied first to the QCD, rather than pro-rata as would normally be the case.

Because QCDs are not included in AGI, there is no charitable contribution deduction for a QCD.

How QCD's can work for you. There are a couple of necessary conditions that must be in place for a QCD to work:

- You must be charitably inclined.
- You must be 70½

Other situational circumstances for a QCD.

- You are using the standard deduction instead of itemized deductions – in some such cases, the itemized deduction for Charitable Contributions may have no tax benefit whatsoever.

- You have no appreciated securities to give.
- You have appreciated securities to give, but your Long Term Capital Gains tax rate is zero.
- You have itemized deduction phase-out.
- You are just over the AGI threshold for Net Investment Income Tax (NIIT), Medicare Premium increase, higher tax on Social Security, etc.

Also note that the maximum leverage on the QCD is in the reduction or elimination of the RMD for the year. So, assuming the RMD is less than the \$100,000 limit, any QCD in excess of the RMD, up to \$100K creates a somewhat unseen benefit and does not reduce current year taxes, per se, at all.

If you are interested in setting up a QCD, don't hesitate to give us a call.

The table below shows the returns through June 30, 2016 for selected investment asset classes. In most cases, the results below are appropriate benchmarks for the related mutual funds in your investment portfolio.

Asset Class	Data Series	YTD	1 Yr.	3 Yrs.	5 Yrs.
Ultrashort Bonds	BofA Merrill Lynch Three-Month US Treasury Bill Index	0.15	0.19	0.09	0.09
Short Term Municipal Bonds	Barclays Capital Municipal Bond Index 3 Years	1.46	2.26	1.75	1.66
Short Term Government Bonds	Barclays Treasury Bond Index 1-5 Years	2.41	2.44	1.62	1.42
Short Term Corporate Bonds	BofA Merrill Lynch 1-5 Year US Corporate and Government Index	2.61	2.65	2.00	1.85
Short Term Global Bonds	Citigroup World Government Bond Index 1-3 Years (hedged)	1.11	1.33	1.12	1.18
Intermediate Term Municipal Bonds	Barclays Capital Municipal Bond Index 7 Years	3.22	6.26	4.55	4.34
Intermediate Government Bonds	Barclays Capital US Government Bond Index Intermediate	3.55	3.93	2.41	2.31
Intermediate Corporate Bonds	Barclays Capital Credit Bond Index Intermediate	4.88	4.97	3.88	3.96
Intermediate Global Bonds	Citigroup World Government Bond Index 1-5 Years (hedged)	1.86	2.36	1.82	1.84
US Marketwide Core 1 & 2	Russell 3000 Index	3.62	2.14	11.13	11.60
US Marketwide Vector	Russell 2500 Index	3.98	-3.67	8.61	9.48
US Large Cap Market	S&P 500 Index	3.84	3.99	11.66	12.10
US Large Cap Value	Russell 1000 Value Index	6.30	2.86	9.87	11.35
US Small Cap Market	S&P Small Cap 600 Index	6.23	-0.03	10.23	11.20
US Small Cap Value	Russell 2000 Value Index	6.08	-2.58	6.36	8.15
Real Estate Investment Trusts	Dow Jones US Select REIT Index	10.82	22.85	13.55	12.30
International Marketwide Core & Vector	MSCI World ex USA Index (net div.)	-2.98	-9.84	1.88	1.23
International Large Cap Market					
International Large Cap Value	MSCI World ex USA Value Index (net div.)	-4.68	-14.35	-0.24	-0.17
International Small Cap Market	MSCI World ex USA Small Cap Index (net div.)	-0.69	-3.35	6.34	3.61
International Small Cap Value					
Emerging Markets	MSCI Emerging Markets Index (net div.)	6.41	-12.05	-1.56	-3.78

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