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Qualified Charitable Distributions



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The ability for individuals aged 70 ½ or older to make qualified charitable distributions (QCDs) first became law in 2006 as part of the Pension Protection Act of 2006. The provision was originally effective from August 19, 2006 through the end of 2007. However, Congress annually extended the provision until December of 2015. In December of 2015, the Protecting Americans from Tax Hikes (PATH) act made the provision permanent (unless, of course, Congress votes to change the law in the future).

The QCD provision allows individuals who are at least 70 ½ years of age with an Individual Retirement Account (IRA) to directly transfer up to \$100,000 per year to a qualified charitable organization. Note that the recently passed SECURE Act does not affect an IRA owner's eligibility to make a QCD at 70 ½ (even if his required minimum distribution, or RMD, age is now 72 instead of 70 ½).

There are three distinct benefits to making a qualified charitable distribution.

Benefit One: Support a Charitable Cause

Most of us are familiar with the phrase, "It is more blessed to give than receive." Anyone who has experienced the blessing of giving to a church or charity would agree with this. What a blessing to be able to make a difference in the lives of those who are less fortunate!

Benefit Two: Save on Income Tax

When an IRA distribution is sent directly to a charitable organization, that distribution amount is not included in adjusted gross income (AGI), therefore saving the grantor income tax on that amount. It is true that charitable gifts are tax deductible; however, the grantor only benefits to the extent the total itemized deduction (including the charitable gift amount) exceeds the standard deduction. Because the standard deduction doubled for most taxpayers beginning in tax year 2018, fewer individuals receive a tax benefit for charitable contributions. By making contributions through a QCD, the taxpayer can receive the full standard deduction while excluding the amount of the QCD from taxable income.

Benefit Three: Help Contain Medicare Part B Premium Costs

A high income individual can experience increased Medicare Part B premiums when his modified adjusted gross income (MAGI) exceeds certain amounts. For instance, a married couple whose MAGI exceeds \$174,000 in 2020 experiences at least a \$57.80 monthly increase in Part B premiums for each spouse (this is known as the Income Related Monthly Adjustment Amount, or IRMAA). QCDs are excluded from the MAGI calculation, therefore having the ability to help contain Medicare Part B premium cost increases.

The use of the QCD provision can be of great benefits to many individuals. Every individual's income and tax circumstances can be different; please consult your tax professional.

Interested in learning more about qualified charitable donations and how they could benefit your tax and charitable planning? Contact our office at 270-467-9664.