First Cary

UNITED METHODIST CHURCH

Make the Most of Your Generosity through
Qualified Charitable Distributions from IRAs

Tax law changes in recent years have made charitable giving directly from IRAs a bit more confusing, but for most seniors, IRA giving is still the smartest way to support qualified charities. That's because those age 73 and older are now required to withdraw a minimum amount each year from their IRAs, 401(k) or other tax deferred accounts, known as "Required Minimum Distribution" or RMD. (If you are 70½ but not yet 73, you can still donate directly to charities from your IRA, but it is not as beneficial because you're not required to withdraw funds and pay tax on the withdrawals.) However, for those 73 and older, this is how QCDs work to their advantage.

If you have money invested in an IRA or other qualified retirement plan and you're 73 or older, you must withdraw your RMD annually, and that amount is subject to tax. Your IRA custodian can calculate the amount of your RMD. (If you do not withdraw your RMD, the IRS assesses a 50% penalty.) But you can direct your IRA custodian to pay all or a part of your required distribution (up to $100,000 annually) directly to First Cary and/or other qualified charities and avoid paying tax on the distribution. These direct roll-over distributions count toward your RMD. (If your retirement funds are in another type of retirement account, such as a 401(k), you must first transfer the funds to an IRA, and that must be done prior to the RMD year.)

In recent years, this alternative has become even more attractive because Standard Deductions are much greater than in the past. For example, those 65 and older filing joint returns in 2023, can deduct $30,700 without itemizing deductions for medical expenses, mortgage interest, state and local taxes, and charitable donations. For single filers, it's $15,700. And the deduction for state and local income and property taxes is still limited to $10,000, and unreimbursed medical expenses are deductible only to the extent they exceed 7.5% of Adjusted Gross Income. So, many seniors filing joint returns must donate nearly $21,000 to charities before itemizing deductions makes sense. (That is why less than 10% of all Americans now elect to itemize deductions.) But seniors can still direct their IRA custodian to send their RMD to their favorite charities while also deducting the Standard Deduction. A direct gift from an IRA to a charity is called a "Qualified Charitable Distribution" or QCD.

As an example, joint-filing seniors in the 22% Federal tax bracket can likely save as much as $5,000 in Federal and state taxes by utilizing QCDs.

Excluding RMDs from taxable income (thereby reducing Adjusted Gross Income) can save taxes in other ways too. It may…

- Reduce the amount deducted from your monthly social security for Medicare,
- Reduce or eliminate the amount of tax paid on your social security income,
- Reduce or eliminate the 3.8% Medicare surtax levied on investment income, and/or

- Reduce or eliminate liability for Alternative Minimum Tax.
- And, even if itemizing deductions is still advantageous, subtracting QCDs from one's income may…
    - Increase the deductible portion of medical expenses, and/or
    - Avoid the annual limits on other deductible charitable contributions.

Whether or not these tax savings are available to you depends on your particular tax situation. But there are few instances in which this way of donating does not reduce taxes. First Cary can help provide general guidance, but please seek specific advice from your financial, tax and/or legal advisor to determine if this way of donating benefits you.