

Reap Tax Benefits from Giving with a Qualified Charitable Distribution

Montgomery County residents overall tend to be generous people, with the average person donating between three percent and five percent of his or her income to charitable causes each year. However, changes to federal tax law in 2017 that can make it less advantageous tax-wise to make charitable contributions were one factor that led to a decrease of about two percent last year in charitable giving.

Of course, many people donate money because they want to better their communities and support charitable organizations they believe in. But this doesn't mean you shouldn't also reap the maximum tax benefits available for giving money to charity.

A Creative Tax-Wise Giving Strategy

One tax-wise charitable giving strategy many people aren't aware of is giving away money held in an IRA using a qualified charitable distribution, or QCD. With this type of distribution, you can donate money held in your IRA to a charity instead of giving away liquid funds.

As I explain in my book "Middle-Class Millionaire, Surprisingly Simple Strategies to Grow and Enjoy your Wealth," using a QCD to make charitable

contributions can save tax dollars in several different ways. The strategy is especially helpful for individuals who are over 70½ years of age and forced to take taxable required minimum distributions (RMDs) from their traditional IRAs. QCDs aren't considered taxable income, so no taxes are due on the distributions.

Also, making charitable contributions using a QCD doesn't affect your adjusted gross income (AGI). A number of different phase-outs are affected by AGI – including phase-outs for itemized deductions, exemptions, the net investment income tax, Medicare premiums, Roth IRA contribution eligibility, and some tax credits – so using a QCD can be beneficial from this standpoint.

In addition, using a QCD to make charitable gifts helps you bypass the rule that limits charitable giving to 60 percent of AGI. You can also exclude QCD amounts from taxable income and avoid paying federal capital gains taxes on the distribution.

Itemizing Not Required

Perhaps the biggest advantage of making charitable gifts using a QCD is that you may be able to realize tax benefits from charitable giving even if you do not itemize deductions when filing your tax return.

The Tax Cuts and Jobs Act raised the standard deduction, which has resulted in fewer people itemizing deductions – and thus more people unable to



Clark Kendall, founder of Kendall Capital Management in Rockville, Maryland, has over 30 years of experience in investment management and wealth management. He provides independent financial direction to Middle Class Millionaires in greater Washington, D.C. www.kendallcapital.com

deduct their charitable contributions. Using a QCD effectively increases the standard deduction since it allows distributions to be excluded from income. The result is lower AGI and a lower federal tax bill.

For example, consider John and Jane, a retired couple in their mid-70s who are living comfortably on their pensions and Social Security benefits. They don't need to withdraw money from their traditional IRA to meet their ordinary living expenses, but they are forced to take RMDs each year and pay taxes on these distributions.

John and Jane donate \$10,000 every year to their local church. If they were to make this donation from their IRA using a QCD, they would satisfy some of their RMD and avoid paying taxes on the amount of the donation without having to itemize deductions on their tax return.

In addition, they would reduce their current year's taxable income while preserving their joint account assets. They could take the full standard deduction of \$24,400 per couple plus another \$1,300 per person over the age of 65, or a total deduction of \$27,000 – and donate \$10,000 a year to their church with tax-free funds.

The Nuts and Bolts of QCDs

Each year, you can use a QCD to donate up to \$100,000 to a charity. Note that the charity must meet the IRS definition of a qualified charitable organization, which is also sometimes referred to as a 501(c)(3) organization. Most religious, educational, scientific and literary organizations qualify as 501(c)(3) organizations, as do well-known charities like the United Way, Salvation Army and Samaritans Purse.

Note that QCDs must be made directly from a traditional, rollover or inherited IRA to the charitable organization. If the contribution is made by check, the check should be made out to the charity and sent directly to that organization. If the check is made out to you, you deposit it and then write a check payable to the charity, the distribution will not be considered a QCD and you'll lose any tax benefits.

Additionally, you should request a confirmation letter from the charity indicating that you didn't receive any benefit (such as goods or services) in exchange for your donation.

To initiate a QCD, you will submit a distribution form to

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your IRA custodian and request that the check be made payable and sent directly to the charitable organization you designate. You will then report the QCD on IRS Form 1040 when filing your federal income tax return, entering \$0 as the taxable amount of the distribution.

Plan Year-End Giving Strategies

With the holidays approaching, now is a good time to start planning your year-end giving strategies and determine if using a QCD is a smart strategy for you. You should speak with a financial professional at Kendall Capital and your tax advisor about the potential benefits of using a QCD as a charitable giving strategy. [NM](#)

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