Financially Speaking
With Trisha Arndt

Consider Making Charitable Donations Directly from your IRA

I am very fortunate to count among my clients a number of wonderful people that I enjoy helping and consider friends. There is nothing better than seeing someone's lifetime of hard work and financial prudence pay off in the form of a satisfying retirement.

What I find even more inspiring though is the willingness of my clients to give to others. Many of my clients donate extensively to worthy causes, including local organizations like the Badger Prairie Food Pantry, Verona Area Community Theater and Verona Public Library, and to larger organizations like St. Jude and the Humane Society.

One of those clients recently called to talk about the donations that he plans to make over the coming year. He makes similar gifts every year and has historically written the checks personally and then listed the amounts as an itemized deduction on his federal tax return. A couple of things have changed though that have caused us to adjust his process going forward.

Like many Americans, he finds himself in the position of no longer itemizing deductions for the first time in many years. The Tax Cuts and Jobs Act (tax reform) that passed at the end of 2017 ushered in a number of sweeping changes to our tax code. One of the stated intentions of the tax reform act was to make it simpler for people to file their taxes and this was partially accomplished by substantially raising the standard deduction so that less people would itemize deductions. In the case of my client, who files jointly with his wife, both of whom are over 70, their standard deduction for 2018 will be $26,600, which is far higher than what their itemized deductions would be.

While his overall deduction under the new rules will be higher than it was prior to tax reform, without itemizing he would no longer receive a direct tax benefit from his charitable donations.

As he is now also over age 70 ½ a new option is available to him for making his charitable donations.

A Qualified Charitable Distribution would be a direct transfer of money from my client's IRA to the qualified charity (or charities) of his choice. He will simply submit instructions as to the amount and charity that he wants to donate to and a check will be issued from his IRA, payable to the charity.

Any amount that he donates in this manner, up to $100,000 per year, will be excluded from his taxable income for the year but will still count as an IRA distribution and count toward his annual required minimum distribution. This will allow him to still receive a direct tax benefit for making the donation, even though he will no longer be itemizing deductions.

In order to be eligible for a Qualified Charitable Distribution the IRA owner must be over 70 ½, the distribution must otherwise be taxable and it must come from a qualifying IRA account (which can include Inherited IRAs if the other rules are met).

The receiving charity must be a 501(c)(3) organization that is eligible to receive tax-deductible contributions to be eligible under the rules for a Qualified Charitable Distribution. Private foundations, donor-advised funds and supporting organizations generally do not qualify.

As with anything that affects your taxes, be sure to review your specific situation and intentions with a qualified tax advisor prior to making a Qualified Charitable Distribution to make sure that you understand the rules and how they will work for you personally.

In the case of my client, these are donations that he intended to make anyway but by doing them via a Qualified Charitable Distribution he can continue to receive a tax benefit for doing them. Perhaps you, or someone that you love, can do the same.

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