

Could You Benefit from Making Qualified Charitable Distributions?

The beginning of a new year is a good time to plan charitable giving strategies for the upcoming year. Taking the time to do this kind of legacy planning now can maximize not only the impact of your charitable gifts, but also the tax benefits you may receive from making these gifts.

A unique giving opportunity exists for couples and individuals who are 70½ years of age or over. By utilizing what's known as a Qualified Charitable Distribution (or QCD), you can meet the requirement to take minimum distributions from your IRA and help support the mission of Illinois Wesleyan by fostering creativity, critical thinking, effective communication, strength of character and a spirit of inquiry, that you believe in at the same time.

How QCDs Can Help with RMDs

Once you reach age 73, the IRS necessitates taking required minimum distributions (RMDs) from your IRA regardless of whether you need the money or not. Since IRAs are tax-advantaged retirement accounts, the government won't let you keep the money in them forever.

When you start taking IRA distributions, you'll have to pay taxes on the withdrawals at ordinary income tax rates. This can result in extra taxes that can put a crimp in your retirement finances.

This is where QCDs come into play. Using these, you can distribute up to \$100,000 directly from your IRA to Illinois Wesleyan University. When given this way, IRA distributions are not considered taxable income to you, which means you **don't have to pay income tax** on the distributions, yet the donation still helps to **satisfy the requirement for a minimum distribution**.

QCDs are Now Permanent

QCDs were first introduced temporarily in 2006 and were renewed on an annual basis. This uncertainty changed with the passage of the Protecting Americans from Tax Hikes (PATH) Act in 2015, which finally made QCDs permanent. As a result, these days you can incorporate QCDs into your charitable giving and tax strategies each year.

More QCD Benefits

There are several other potential benefits to using QCDs in addition to relieving the tax burden posed by having to take RMDs, including the following:

- » Initiating a QCD from an IRA does not impact your adjusted gross income (AGI). A number of different phase-outs for certain taxes and tax breaks are based on AGI — such as those for itemized deductions, social security and Medicare calculations, the net investment income tax, Roth IRA contribution eligibility and certain exemptions — so this is an important consideration.
- » You can bypass the rule that restricts charitable giving to a percentage of your AGI. Distributing money directly from your IRA to a charity using a QCD effectively reduces your AGI even if your contribution would have exceeded the percentage limit of AGI.

QCD Criteria

There are several important criteria that must be met to initiate a QCD. For example, you must be at least 70½ years old at the time of the distribution. Also, the distribution must be made from a traditional, rollover or inherited IRA — it cannot be made from a SIMPLE or SEP IRA.

Perhaps most importantly, the QCD funds must be distributed directly from the IRA to Illinois Wesleyan University. Practically speaking, this means the check should be made out to the charity, not to you personally. Take note: If it's made out to you, the distribution will be a taxable event and you'll lose the benefits of using a QCD.

To initiate a QCD, simply submit a distribution form to the IRA custodian requesting that the check be made out directly to your desired charity.

Our Take

As you plan your charitable giving and tax strategies, think about whether utilizing a Qualified Charitable Distribution might be a wise move. And be sure to speak with a member of our advancement team and we can assist you and your advisor and tax professional about your situation in more detail.