Gifts of an IRA or 401K

A qualified charitable distribution (QCD) allows individuals who are 70 1/2 years or older to donate up to $100,000 total to one or more charities directly from a taxable IRS instead of taking their required minimum distributions.

As a result, donors may avoid being pushed into higher income tax brackets and prevent phaseouts of other tax deductions, though there are some other limitations.

How Required Minimum Distribution Work.

Understanding qualified charitable distributions begins with understanding required minimum distribution (RMD). People who hold Individual Retirement Accounts (IRAs) are required to take RMDs each year beginning at age 72 - even if they don't need or want the funds. That same RMD increases the IRS holder's total taxable income.

This income increase could potentially push the taxpayer into a higher income tax bracket. It can also trigger phaseouts, which limit or eliminate some kinds of tax deductions, such as personal exemption and itemized deductions, and sometimes trigger high taxes on Social Security income.

How QCD's Work.

QCDs are also called IRA charitable distributions or IRA charitable rollovers. They enable individuals to fulfill their required minimum distribution by a direct transfer of up to $100,000 to charity. They can also be used to support multiple charities, as long as the sum of the distributions is within the $100,000 limit. But because QCDs don't increase taxable income, both higher tax rates and phaseouts can be avoided.

In addition, because QCDs reduce the balance of the IRA, they may reduce required minimum distributions in future years. QCDs are also not counted toward the maximum amounts deductible for those who itemize their giving on their taxes - the $100,000 can be above and beyond those limits. For these reasons, a QCD can potentially enable a donor t give a bigger charitable gift than they could if they just donated cash or other assets. Learn more about charitable tax strategies.

How QCDs are made: Qualified charitable distributions are made directly to the eligible charity from a traditional IRA, inherited IRA, inactive Simplified Employee Pension (SEP) plan and inactive Savings Incentive Match Plan for Employees (SIMPLE) IRAs. (Inactive SEP and SIMPLE IRAs are accounts that no longer receive employer contributions.)

The money is a direct transfer that never passes through the hands of the IRA holder. Instead, the IRA custodian can either send a check directly to the charity or the account owner, who then hands it over to the charity.

For a QCD to count toward your minimum annual IRA distribution, it must be made by the same deadlines as a normal distribution, which is usually December 31 of the tax year in question.

As always, please consult your attorney and financial planner for the proper gift that fits *<u>your</u>* needs.

(Source:FidelityCharitable.org)