Rise Private Wealth Management

Ameriprise Private Wealth Advisory Practice

The Benefits of Donating IRA Distributions to Charity

If you've accumulated a significant amount of money in traditional and rollover individual retirement accounts (IRAs), you may want to consider tax-efficient strategies that can reduce your tax burden and benefit your favored charities. IRAs, while an effective tool for retirement savings, may also create tax challenges when you start taking distributions, which are subject to income tax. So how can you turn your IRA distributions into charitable donations and reduce your tax burden?

One tax-efficient way to make charitable contributions is through a Qualified Charitable Distribution (QCD). A QCD is directing your IRA custodian to make a direct transfer of funds from your traditional IRA to a qualified charity. The amount transferred from your IRA as a QCD is not included in your taxable income.

Multiple tax benefits

Making a direct distribution to a qualified charity from your IRA is an option limited to those who have reached age 70-1/2. An individual can direct up to $100,000 tax-free per year from their traditional IRAs (for a married couple, the $100,000 annual limit applies to each spouse, for a total of $200,000). The distribution must come from an individual IRA or rollover IRA. The option is not available for workplace retirement plans or an active SEP or SIMPLE IRA.

The QCD approach creates a variety of potential tax benefits, including:

- **Avoiding limits on charitable contributions**. The qualified charitable distribution allows you to direct up to $100,000 to be paid directly by the custodian, regardless of your adjusted gross income (AGI) in a given tax year.
- **Using a standard deduction**. Because the QCD excludes income from the IRA distribution, it frees up the standard deduction to offset other taxable income.
- **Retaining the full benefit of itemized deductions and personal exemptions**. If you make a charitable contribution, a QCD allows you to avoid having to take a large IRA donation as income because you are donating it. Therefore, you won't inflate your income to higher levels that could impact your ability to itemize deductions and personal exemptions. In 2017, that threshold begins at $261,500 for a single tax filer and $313,800 for a married couple filing a joint return.
- **Other tax benefits**. Keeping your income lower through direct distributions from IRAs to charities also may help you:
    - Reduce taxes you might have to pay on a portion of your Social Security benefits;
    - Avoid paying higher Medicare Part B premiums;
    - Potentially limit state income taxes;
    - Claim other deductions (medical expenses or miscellaneous itemized deductions) that can only be declared when your expenses exceed a percentage of your adjusted gross income.

Meeting required distribution rules

Another important tax advantage of qualified charitable distributions is that you can use the strategy to satisfy required minimum distribution (RMD) rules each tax year. After you reach age 70-1/2, you are required to take distributions from traditional IRAs. RMD amounts are calculated using a life expectancy table from the IRS. This can result in a burdensome tax liability, particularly if you don't have a need for the income created by the distribution. A QCD can satisfy your required distribution obligations in any given year, resulting in potential tax savings.

As you consider a planning strategy that includes QCDs, consult with your tax and financial advisors about your situation. Also, check with the charitable organization of your choice to be sure they are a qualified charity and can accommodate a direct distribution from your IRA.

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