TAX-WISE GIVING STRATEGY – GIVING FROM YOUR TRADITIONAL IRA

Who is it for?

If you have a traditional IRA and are over age 70.5, you have a perfect opportunity to give to your church and potentially reduce your federal income taxes. The strategy is known as a Qualified Charitable Distribution (QCD).

How does it work?

- You determine the amount of your gift and have that distribution made from your IRA directly to your church (not to you!).
- There is a limit of $100,000 per year per individual donor.
- The transfer to the church counts toward your IRA Required Minimum Distribution (RMD) for that year.
- The transfer does not generate taxable income or a charitable deduction.

What are the benefits?

The strategy may have benefit if you:

- Do not itemize your deductions, but instead take the standard deduction.
- Pay income taxes on your Social Security benefit due to receiving an RMD.
- Pay state income tax on IRA distributions but cannot deduct charitable gifts on your state return.
- Encounter deduction limitations due to exceeding certain income thresholds.

Here's an example:

John Smith, age 74, owns a traditional IRA currently worth $200,000. Because John is over age 72, he must take a Required Minimum Distribution this year of at least $7,843. John decides to make a gift of $20,000 to his church from his IRA. He directs his IRA custodian to transfer the $20,000 from his IRA directly to his church. John benefits as follows: he has satisfied his current year Required Minimum Distribution (RMD). The $20,000 distribution does not count as taxable income to John, thereby potentially avoiding increased taxation of his Social Security benefit. He may also have avoided higher taxes (surcharges) due to not breaching certain income thresholds. It's a classic win/win!

A few things to keep in mind:

- The strategy works only for Traditional IRA accounts, not Roth IRAs or 401(k) plans.
- The strategy is available to anyone with an IRA over age 70.5 even though their RMD may not begin until age 72. In other words, people ages 70.5–71 can use the strategy.

Disclaimer:* *this outline provides merely a generalized summary of complicated tax issues. Prospective donors should not consider this summary as a substitute for careful and individual tax planning and are urged to contact their own legal and tax advisors.